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and BUSINESS ANALYST

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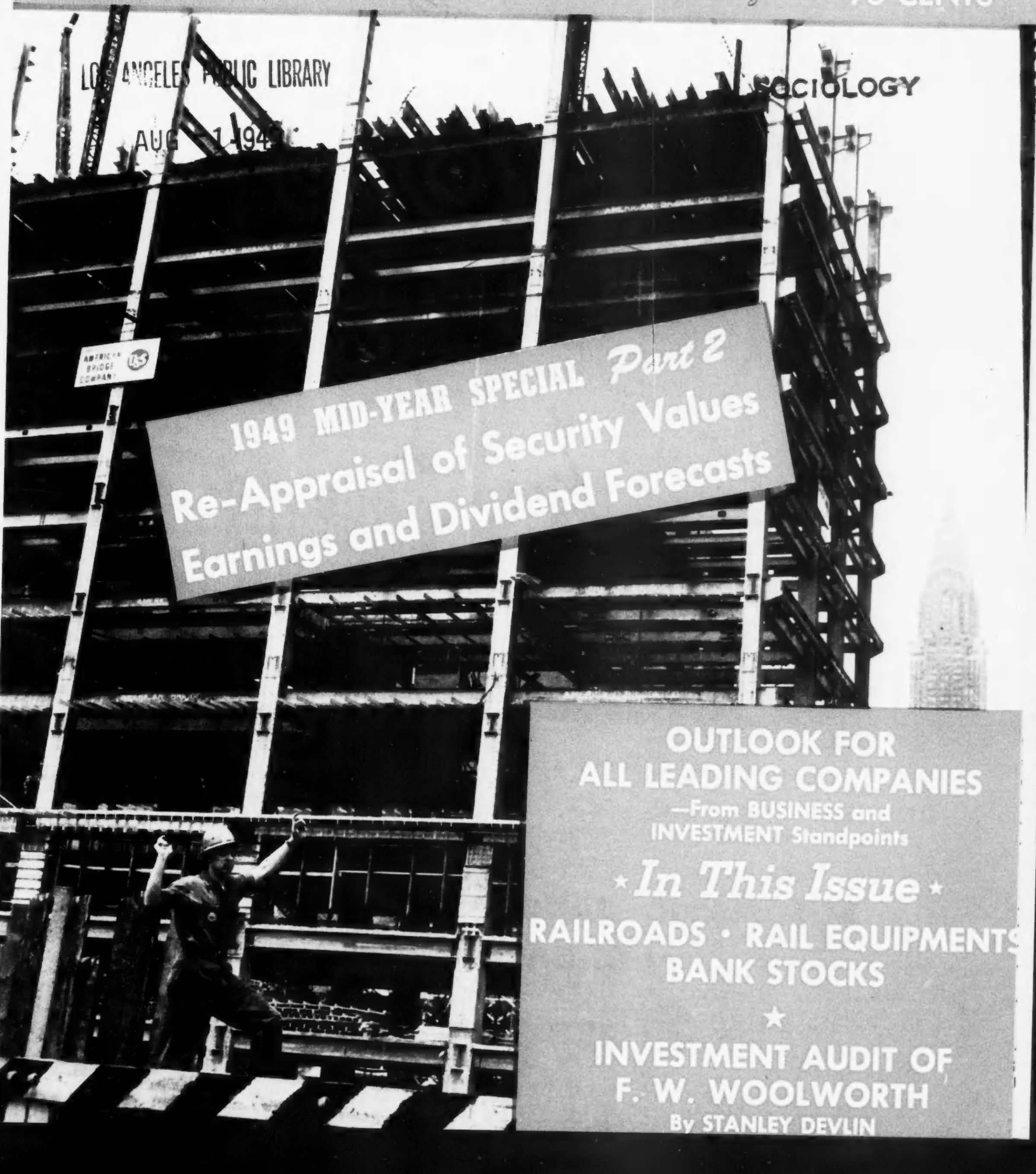

1949 MID-YEAR SPECIAL *Part 2*

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—From BUSINESS and INVESTMENT Standpoints

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By STANLEY DEVLIN

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CONTENTS

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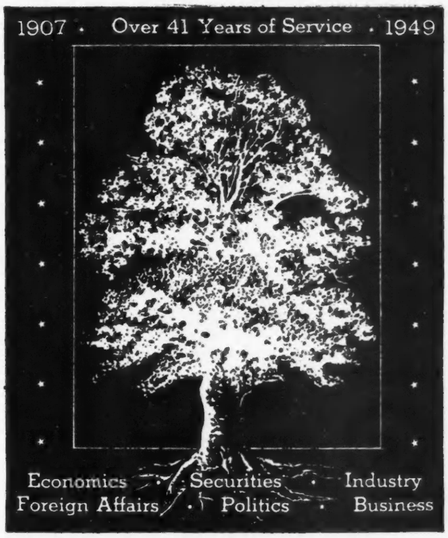
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

THE NORTH ATLANTIC TREATY . . . The Senate, in a decision marking a historic departure in American foreign relations, last week ratified the North Atlantic Pact after lengthy debate but without any of the reservations advocated by a small number of die-hard opponents. By overriding their fears and objections, the Senate has justified the hopes and expectations of the free world.

The way has now been cleared to the formal creation of the North Atlantic community as an alliance forged by fate and necessity, dedicated not to war but to the preservation of peace and the defense of freedom and security against aggression from any quarter.

However, if the Treaty is to fulfill its purposes and become the great deterrent to aggression which it is designed to be, it will have to become more than a mere paper instrument. It has to be vitalized to become a living and functional reality, and the means for giving it this strength are provided in the Treaty itself. The Pact must still be backed by arms.

Article 3 of the Treaty calls for continuous and effective self help and mutual aid to maintain and develop the individual and collective capacity of the signatories to resist armed attack. In fulfillment of that obligation, the Administration is submitting to Congress a military aid program to enable Western Europe to activate and develop its own defense resources.

There is no doubt about this country's obligation to extend such aid, just as there is no doubt about the obligation of the other signatories to help themselves to the utmost degree. In the end, Europe can be defended only by the Europeans and the worst that could happen is if they "went to sleep" behind the Treaty leaving everything to Uncle Sam.

The responsibilities which this country has assumed are grave indeed. The freedom which the signatories retain is that of determining how best to discharge them. Thus it rests with the signatory nations, each in its own way, to make certain that the intent of the Pact is fulfilled, and that its strength be real. As far as we are concerned, the Pact has been ratified after full and free debate, with an impressive majority. There can be no misconceptions as to the commitments involved. It is advance notice to any potential aggressor that he will be met by the joint strength of the North Atlantic community. The hope is that this will be an important step on the long uphill road to universal peace.

But it must also be realized that the Pact's implications transcend the primary purpose of mutual defense; essentially it is also a compact to sustain the ideals of western civilization. And arms are one means by which a way of life is made secure. It is to be hoped, therefore, that the new common bond among the nations of the West will also make for greater understanding among them, and increased collaboration in economic and political matters.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

THE MEXICAN OIL LOAN . . . As was to be expected, negotiations for a dollar loan to Mexico to foster Mexican oil de-

velopment did not proceed smoothly, It is now admitted that they are stymied, at least for the time being. Mexico wanted $200 million but it obvious attached. Previous experience with Mexican oil de- that she could not get it without certain strings velopment made this necessary.

From Mexico City come reports that these "strings" were such that, if accepted, it might have caused a revolution. For one, it was stated, the loan terms called for the return of private American oil companies to Mexico which, some Mexican officials explain, would have meant repudiation of the Mexican revolution and political suicide for President Aleman. Mexico's oil legislation, they point out, is based on the theory that all sub-soil wealth is national property.

Other "strings" reportedly attached to the proposed loan included the signing of a commercial air agreement; signing of a migrant labor agreement and "restrictions" on the handling of the loan by Mexico.

It is understandable that after the American oil industry's experience in Mexican oil development, which ended in expropriation, it will not be easy to come to terms acceptable to both sides. The type of development envisaged would call for active cooperation of our leading oil companies and these would naturally want to safeguard their interests. Similarly, since it is the lender, this country is likely to insist on having a voice on how the loaned funds are to be used, and how development work is to proceed. Quite possibly, the Mexicans in this respect are a bit too sensitive; they should try to see our side as well, especially after what has happened in the past.

Development of Mexican oil resources, while highly desirable from the standpoint of our and Hemisphere security, will be of paramount advantage and interest to Mexico herself, for it would opén up a new and prolific source of dollar income which Mexico needs so badly for maintenance of a sound and solvent economy. Since the basic reasons for going on with this program are so compelling, it is reasonable to assume that a satisfactory compromise will be found that will permit its ultimate implementation.

The situation demands that Mexico move to expand her exports, particularly to the dollar area, and the best bet appears to be increased oil production. Mexico's surprise ending of negotiations for the loan thus may be only a phase in its complicated internal economic and political situation, to be followed by more practical and realistic thinking that will bring opposing viewpoints nearer.

BRANNAN PLAN DEFEAT . . . Defeat of the proposed "trial run" for the Brannan farm subsidy plan in the House of Representatives must have caused little surprise even to its Administration backers, for it must have been obvious that efforts to sell the plan to party leaders and farmers were never quite successful. The principal and telling argument of the opposition was that the plan would lead to a peacetime OPA and cost billions more than the present price supports. For the Administration, nevertheless, the House vote constituted one of the most decisive setbacks of the session, particularly since it is most unlikely that the Senate will now have any part of it.

The farmers, however, whose votes are coveted, were by no means left hanging in the air. The House repealed the Aiken Act which effective next year would have called for flexible price supports, and voted 230 to 170 to extend for one year the present law which requires support of most farm prices at 90% of parity.

This means no relief either for the consumer or taxpayer. But on this score the Senate still remains to be heard from. It can either follow the lead of the House and extend this year's support program — the more likely course — or it can, by doing nothing, allow the Aiken bill to go into effect next January 1.

From an overall standpoint, the latter would be preferable, for it would promise relief of at least some of the huge burden which otherwise must be assumed in order to keep farm prices, and food costs, high amidst plenty.

INCREASED PRODUCTIVITY . . . The need for greater productivity in industry has long been recognized as a vital requisite not only for successful economic readjustment but for long term economic and social progress generally. As far as the current readjustment phase is concerned, without increased efficiency and productivity, there can be little cost reduction, and without proper cost reduction, there can be no adequate price reduction to spur consumer demand. From the standpoint of long term progress, further improvement in our standard of living can only be achieved by constant gain in productive efficiency, both technological and at the worker level.

Prior to the war, labor productivity increased at an average of about 3% a year but since 1939 the rate has been whittled down to a mere one percent, reflecting the wastefulness of production during the war years and the postwar boom period when output was the primary aim, and price and costs distinctly secondary. This of course is changed now. The need for lower cost is paramount and what with a rigid wage structure, costs can now only come down by stepping up efficiency. Fortunately there is progress in this direction. Data compiled by business and banking circles indicate that labor productivity during the first quarter of this year was some 5% higher than a year ago, the first notable increase since the war.

This is due in part to industry's drive to cut costs. As uncertainty mounts, business is doing everything to cut operating costs by utilizing as far as possible only the most efficient production machinery and men at their disposal. It has gone to great length and enormous expense to modernize facilities, and at long last these efforts are bearing fruit.

Because of heavy capital investments, a substantial rise in labor productivity was anticipated earlier but it took the shadow of a recession for a real boost. Workers are sticking to their jobs and working harder these days. As competition grows, manufacturers are forced to produce more cheaply in order to sell, and maintain output and employment. Many have enlisted the aid of their workers and convinced them that more output per man means lower costs; that the latter in turn means lower prices and more business — and greater job security. It is a trend in the right direction. Its continuation requires not only rising efficiency on the part of labor but constant improvement of the nation's productive machinery.

As I See It!

By ROBERT GUISE

FOR PACIFIC SECURITY

There is reason to believe that the North Atlantic Pact, soon to become a functional reality, played no small part in the sudden "softening" of the cold war which the Soviets have inflicted on the West for so many months. It proves that a determined banding together of freedom-loving nations can effectively put a halt to aggression. Thus communism appears to have been successfully contained in Europe, but how about Asia where the spreading fires of communism continue to threaten catastrophe? It is high time that something be done for Pacific security as well.

President Quirido of the Philippines did a statesmanlike thing when he invited Chiang Kai-shek to visit him for a straight talk on Pacific problems. There is no need for him to pussyfoot on the communist menace. He has had to face it right in his own backyard.

But what is perhaps most significant is that the Philippines and Nationalist China are willing and ready to go ahead with plans for concerted resistance to the communist threat in spite of distinct coolness to the idea on the part of the United States and such countries as India. Washington was quick to disassociate itself from the plans that were made and the appeal that was issued though this attitude naturally hardly removes the actual threat faced by the Filipinos and the Chinese.

"WEIGHING HIS CHANCES"

Fitzpatrick in the St. Louis Post-Dispatch

There is talk that Secretary of State Acheson found himself outmaneuvered by Chiang who startled the State Department by seizing leadership of a proposed anti-communist Pacific Union to include parts of China, the Philippines, Southern Korea, Indonesia and other countries. Chiang has been thought to be down and out, thus his sudden emergence as a potential Asiatic leader was rather surprising.

There is of course need to be realistic about the whole situation, and Quirino and Chiang have said in effect that they are willing to be realistic. Obviously the formation of any kind of a Pacific security bloc must eventually be the subject of official scrutiny, participation and probably leadership of the United States despite the fact that in the past three years, we have repeatedly avoided coming to grips with the Pacific security problem. The march of events is bringing the time for decision closer, and one of these events has been the recent meeting between Quirino and Chiang. Fortunately the fact that we were unwilling to take the lead has not prevented these steps from being taken and if they compel a closer examination of our own Pacific policy, so much the better.

The latest approach, in the long run, may actually prove a better way than immediate assumption of direct United States leadership if only because no one can then accuse us of imposing our ideology on other countries. But this doesn't mean that we cannot show our solidarity with those countries that are willing to fight communism. In this connection, British attempts to come to terms with the Chinese communists rather than resist them, as in Shanghai, are hardly inspiring, and the same is true of our own attitude in the face of communist threats and provocations. In Shanghai and Hankow, we, too, have knuckled under.

The least that is called for is the kind of unity of idea and purpose in combating communism which gave birth to the North Atlantic Pact and the lack of which — in the Far East — apparently explains why nothing could be done so far in the Pacific. What's needed is a united front, not in the military sense since that is hardly feasible for some time, but in every other way — unity of purpose that works for Pacific security in the face of the spreading communist menace. It is something to which we can and should give our wholehearted support, for in the end, as the most powerful Pacific nation, it will be up to us anyhow. We are fully committed to exercise our means and influence to contain communism in Europe but this policy cannot be complete without a realistic appraisal of the Asiatic danger. Let's look that way, too!

Significance of Recent Market Action

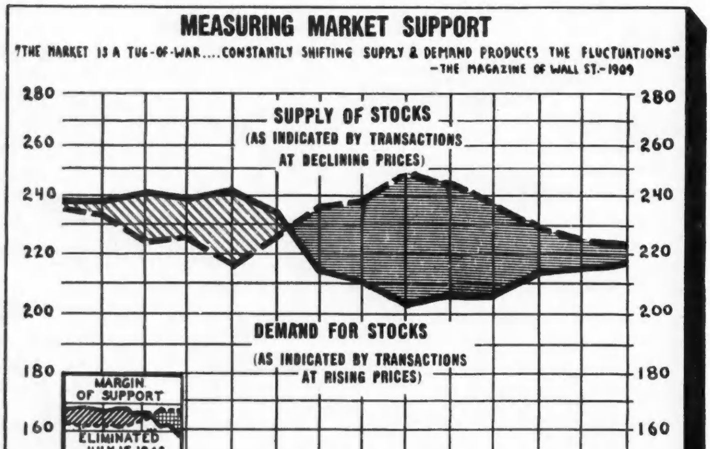
The rally in stock prices of the past five weeks or so rests on technical and seasonal factors, plus some betterment in the business news. The lasting significance of the latter is questionable. We do not believe that the final downside test for the market as a whole has been seen. Maintain the conservative reserves heretofore recommended.

By A. T. MILLER

There has been some further moderate recovery in the market since our last previous analysis was written a fortnight ago, extending the duration of the upswing from the June low—which stands as the low for the whole postwar period to date—to about five weeks. The technical evidence late last week suggested that the rally has run into trouble. Whether that means the termination of the move, or a minor correction which is to be followed by a further upside try, remains to be seen.

It is not possible to have any strong conviction about the significance of the June-July rise. Certainly adequate evidence that it is anything more than a rally from a temporarily over-sold position —a rally aided by the seasonal tendencies usually associated with the summer period—is yet to be had. In other words, it is not any more impressive in itself than were similar rallies in July or August in a number of past years in which the major trend was down, carrying average stock prices to new lows by late summer or autumn. On the contrary, there have been many bear-market rallies which exceeded this one in vigor.

There are some technical considerations which put a rather heavy burden of proof on the bull side. For one thing, no market recovery so far this year, including this one, has yet managed to carry above a previous rally high. The best levels seen in the narrow backing and filling of April and May were appreciably under the March high, and the latter was well under the January high. The market now has merely got back to the close vicinity of where it stood early in May. It has reached a supply area in which either the rise will be strangled by the combination of increased selling and reduced demand or in which the going on the upside seems bound to be considerably more laborious than it has been heretofore. There is unlikely to be any sharp lift from a rush of covering by frightened shorts. Indeed, the short position is larger now than it was a month ago; and there is probably less of an "amateur" element in it than there was around the June lows.

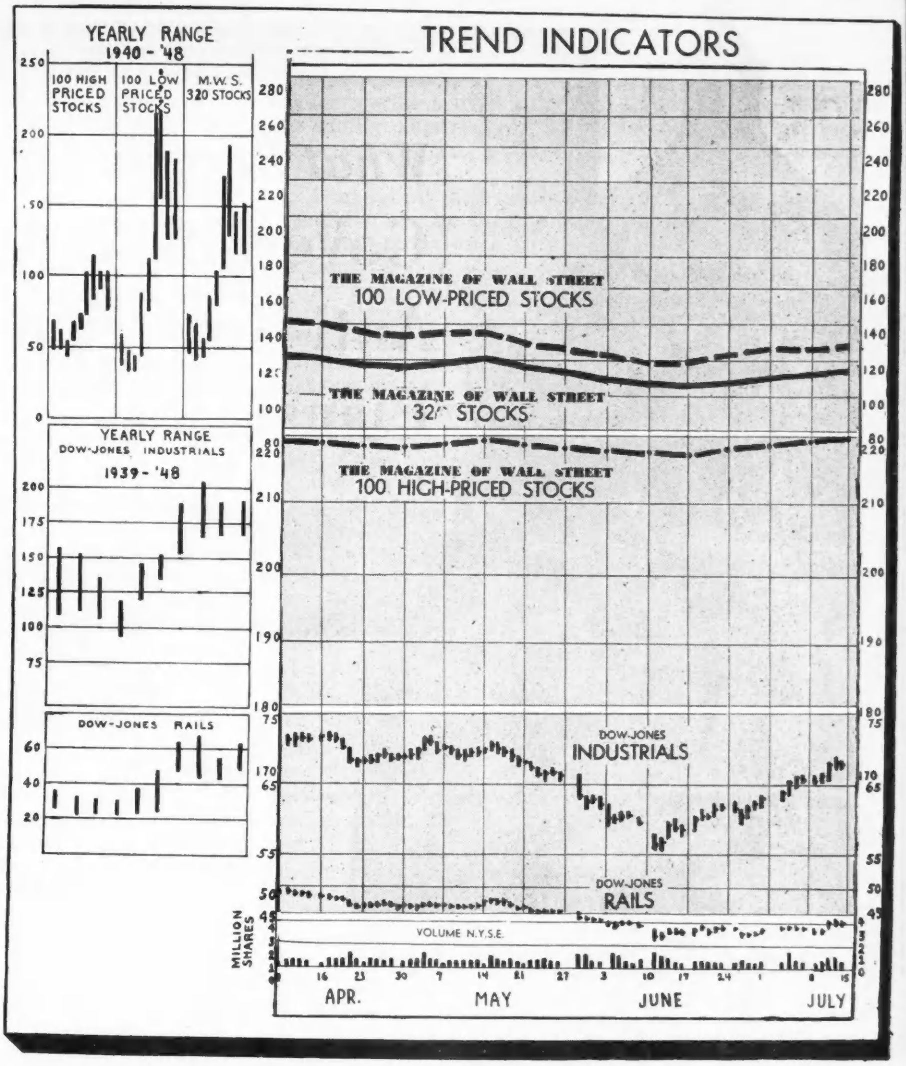


Speculative Confidence Still Low

For another thing, there is no evidence of a real revival in speculative confidence, such as is required to feed a sustained market rise. Measured against the rise in our composite index of 320 stocks, the rally in the index of 100 lowest-price stocks to date has been considerably less vigorous than was so on market recoveries in the spring and early-summer seasons of both 1948 and 1947. Since the 1946 bull-market high was recorded, the performance of this index has been more reliably indicative of the main trend than that of any other general index or average. It has persistently made new postwar lows ahead of the general list. It did not fare as well last week as the general market. Incidentally, the still low level of speculative confidence is all the explanation needed for the relatively inferior ac-

tion of the daily railroad average on this market rebound.

The volume indications are misleading. That is, total volume on the Stock Exchange reached a new high for this phase on market strength in the first half of last week, but that was due to abnormal activity in one low-priced stock (Commonwealth & Southern) affected by special circumstances. Eliminating that, the volume figures of the week gave some tentative sign of waning vigor for the rally.



The significance of constructive money-market factors, emphasized in the firmness of the high-grade bond market, could easily be exaggerated. The bulk of this year's rise to date in top-grade bonds occurred before the Reserve Board modified its policy of setting a ceiling on Government bonds by sales from its large holdings thereof. It is well known that the monetary authorities would frown on more than a modest upward tendency in Governments, and that various controls are available to prevent anything more than that. Stocks with some "money-market flavor" — secure dividend-payers in stable industries — have risen more in recent weeks than could be accounted for by actual changes in bond yields. It could be that they were unduly low at the bottom of the May-June sell-off. But we question whether the same could be said for a majority of stocks. Moreover, a firm bond market is not enough in itself for a continuing rise in the minority of secure-dividend equities, yields of many of which have already been scaled down substantially.

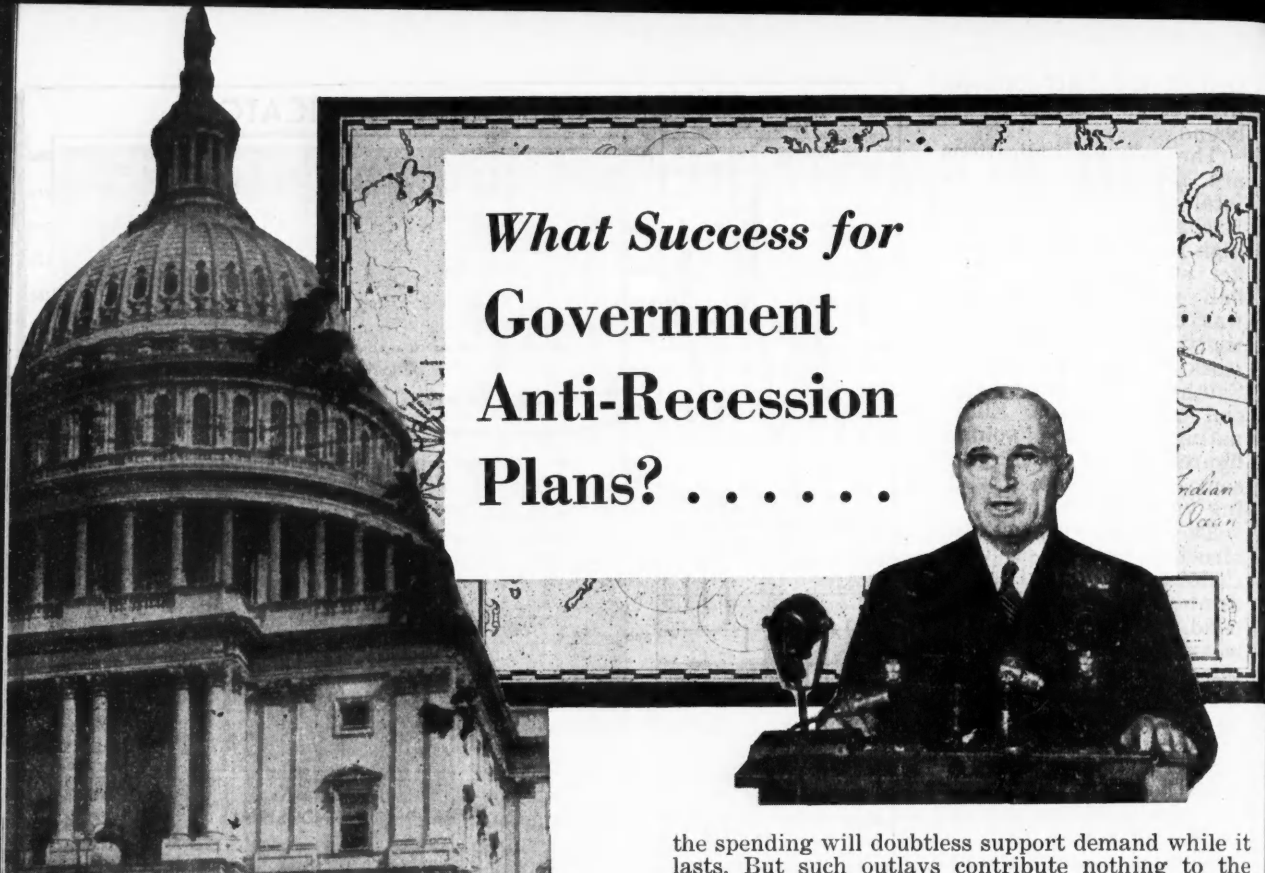
The Business News

The automobile industry's somewhat independent boom is the outstanding thing in the business picture, and now seems likely to run at least through the summer without slackening. Measured by work in progress, building activity so far this year has approximated year-ago levels. Contract awards (future building activity) were down 6% for the first half year, with a rise in public works partially offsetting a 17% fall in private awards. There has been a rebound in the steel industry which is probably temporary, volume having been down sharply earlier in the month when a number of furnaces were banked on the strike threat, which also brought some bulge in orders. Production in some of the long ailing light industries, notably textiles and shoes, has turned upward. Whether this is lasting remains to be seen.

On an average, commodity prices have lost no further ground over the last month or so; and some have turned stronger. That is so of non-ferrous metals, which had fallen excessively. But it is likewise so of farm items as a group and of foods. These have remained out of line, on the high side, with the rest of the price structure; and, in the face of looming crop surpluses, a solid reason for their current rally is hard to see.

According to Government estimates, total disposable income of the people in the second quarter of this year was at the annual rate of $193 billion, down only 2.4% from that of the first quarter and down only about 3.2% for the peak rate of $199.4 billion seen in the fourth quarter of 1948. Department-store trade continues to run materially under year-ago levels; but over-all trade, which includes sales of automobiles, remains close to peak levels and has varied little during the first half year. Total personal spending is officially estimated at a $175 billion annual rate for the second quarter, against $176.6 billion in the first quarter and peak of $181 billion in 1948's fourth (*Please turn to page* 454)

What Success for Government Anti-Recession Plans? . . . . . .



BY E. A. KRAUSS

Those who anticipated and feared presidential advocacy of a huge pump priming program to counter the business recession were rather pleasantly surprised by, though by no means in complete accord with, the President's prescription for prosperity as embodied in his mid-year economic report.

This report brought together economic facts which illustrate the orderliness and relative moderateness of the current adjustment phase. It struck a sympathetic chord by exhibiting a lack of the "emergency" type of concern over mounting unemployment. Equally important, the report, unlike the President's January message, appeared not only constructive in some aspects but on the surface at least conciliatory to business though never quite hiding the "big stick" of Government intervention. But it strongly suggested that the President is ready to acknowledge that the strength of our economy is to be found more in private activity than in governmental prescription or intervention.

The fact that costly pump priming of major proportions is not now contemplated is cheering enough, for that is neither warranted nor would there be any prospect of it being really effective. New Deal experience has failed to demonstrate that pump priming with borrowed money can really produce prosperity. The Government can spend heavily, and the spending will doubtless support demand while it lasts. But such outlays contribute nothing to the solution of the basic problem of cost and price reduction which is a requisite to economic revival. In the end, these problems of adjustment would remain, and we would find that the agony has merely been prolonged.

Thus failure to resort to all-out pump priming must be considered constructive not alone from a fiscal viewpoint which is compelling enough, but because really big spending with its resultant Government intervention in virtually every economic area, direct or indirect, would seriously interfere with the normal adjustment process. This doesn't mean, of course, that pump priming is out. The economic course suggested by the chief executive means continued high Federal spending resulting in an estimated deficit of between $5 and $6 billion in the 1950 fiscal year. This relative "moderation" must have chagrined his New Deal advisers who felt that the Government must "contribute" to the income stream between $5 to $10 billion additional to assure full employment. Since Congress would refuse to go along with any such program, we find the new prescription more in line with the realities of the situation.

Restatement of New Deal Philosophy

Nevertheless, the President's message added up to a restatement and extension of a philosophy that had a deep influence upon the launching of the New Deal in the Thirties. Actually only four of the eleven points he submitted are new; the others have come up before. Bowing to the new economic climate, the quest for higher corporation taxes and price controls were left out though the idea of Government-sponsored plant explansion was retained. There was even a token gesture towards business tax relief in

the form of suggested repeal of the war-born 3% tax on the transportation of goods, and of liberalization of the loss carry-over provisions of the corporate income tax law. But to compensate for the resulting small loss in revenues, he asked for a rise in, and tightening of, estate and gift taxes.

No Balanced Budget

At the same time, the President gave up hope of trying for a balanced budget. Apparently with more regard to politics than economics, he tacitly accepted the "necessity" of running the Government at a loss temporarily by rejecting the idea of economies in Federal functions. "There are economic and social deficits that would be far more serious than a temporary deficit in the Federal budget," he opined. By refusing to make spending programs smaller, the President was not necessarily unmindful of the fact that private business decisions to spend are adversely influenced by high taxes and an open-handed spending policy generally. Hence his token concessions to business in an effort to obviate this very impact on sentiment, realizing that a high level of investment flow is the key to maintenance of full employment and a stable economy. But very little was suggested to facilitate it. Nothing was said about tax revision to end discrimination; there was more rather than less emphasis on welfare statism, and no abatement of the threat of Government competition with business. Rather, the threat of "conscious and positive action by Government" remained.

Just as the President's altered tax program was designed to give a mild stimulus to business, so his other suggestions to Congress were designed to give a lift to other parts of the economy. Among them were improved farm income supports; a minimum wage increase to at least 75c an hour; expanded unemployment compensation and old age insurance. But he was not ready to plunge into an extensive program of public works though he did ask legislation to permit Federal agencies to intensify their advance planning and to acquire sites for useful projects; and to speed up projects already prepared in regions suffering severely from unemployment.

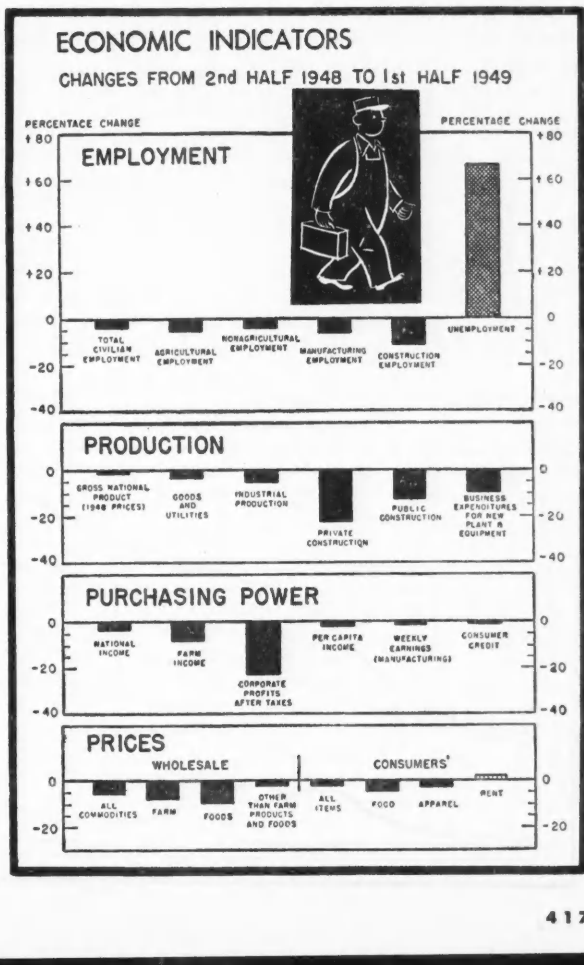
What Effect On Business?

From a practical viewpoint, just how can the President's proposed program, provided it is enacted, contribute towards business recovery? Though congressional attitude had made the prospect for higher corporate taxes at this time extremely doubtful, official abandonment of this request doubtless lifted some burden from the minds of business, but whether this will make for freer spending at this time remains to be seen. Under present conditions, perhaps few corporations will be ready to utilize the funds that would have been taken from them by increased taxes. Business men invest only when profits can be made, thus potential spending decisions may be at least temporarily postponed until the profit outlook becomes more clearly defined. Still there are reports that the Administration's decision not to press for higher corporate taxes is resulting in revival of a number of deferred industrial construction programs. Obviously, managements are now in a position to review their plans in the light of the money they will have available to spend.

There is no doubt that former insistence on higher corporate taxes has been a disturbing influence not only on those contemplating expansion of production but also on those awaiting an opportunity to invest profitably in new enterprise. From this viewpoint, revision of the former stand must be viewed as highly constructive though too belated to produce full benefits. Tax policy as a whole remains a sore spot.

The nation, and business, is staggering under a tremendous tax burden and the President himself realizes that needed revenues cannot be maintained without a very substantial enhancement of the nation's output. But how can one hope to accomplish this without enabling those who possess the willingness, financial ability and the know-how, to furnish the machinery and facilities to produce what it takes to boost output. Confiscatory taxes and resultant restrictions on the growth of risk capital hardly permit such an expansion of the economy. The incentive is still lacking.

That's why we feel that the President's tax gesture, belated as it is, is also extremely feeble. It was "sweetened" by the proposal to liberalize loss carry-over provisions in line with earlier Treasury recommendations, which in itself is constructive enough, and conceivably could render business less reluctant to shoulder temporary losses during the adjustment period. Thus it could work towards more aggressive planning and maintenance of production. It also will doubtless be a considerable help to newcomers in business, and generally should tend to stimulate new enterprise. But whether this particular concession



will be enough of an incentive to do the expected job is open to question. Its significance rests in how it will affect business decisions in the months to come.

Worried about the decline in business investment, the President set forth other means of stimulation. He will try to promote private investment through easier credit, both from banks (easy money policy) and Government agencies (RFC loans to business). But at the same time he made it clear that in his view the Government must take some responsibility for stimulating and supplementing private activity if mere incentives faily to bring about a pick-up. At the same time he wants Government to keep a constant eye on how business invests its funds and expands its facilities; and how manufacturers plan their price and wage policies. The latter approach will hardly inspire confidence among business men. The same can be said of the President's request that industry cut prices, keep wages high and maintain peak production while at the same time he steadfastly holds to his policy of broadened social security which is bound to perpetuate and raise the country's tax burden.

Argument Against Wage Boosts

As it is, the economic burden of the President's message can readily be interpreted as an argument against cost-raising wage boosts which would invite the tide of lay-offs which he wants to avoid. His economic data emphasize the need to stop the lag of consumer spending behind consumer income by reduction of retail prices. Only with controlled costs and with prices which fairly reflect them can this be brought about, however.

There are those who regard the tax proposals, including the suggested repeal of the 3% tax on the transportation of goods, not so much as a new, friendly gesture to business but as a barter offer, to be accepted in lieu of elimination of wartime excise taxes in which there is pressing interest. Such elimination would mean a substantial loss of revenue which, the Administration feels, the Treasury can ill afford. Against this, repeal of the transportation tax would involve an estimated revenue loss of only about $372 million. It would help reduce the cost of goods at least modestly. This tax, frequently attacked as a pyramiding impost, has been adding to the cost of goods at every stage of their processing. As a strictly wartime measure, its repeal is long overdue.

To sum up, the President's program, if carried out without delay which is doubtful, could have the effect of speeding economic recovery which in time is due to materialize anyway. However, it lacks really affirmative action, particularly to stimulate private spending. Merely to have Congress provide for a broad study of business investment will not do. Since its implications smack too much of the former proposal to build steel plants and other industrial facilities because private enterprise was allegedly not providing enough capacity, it seems an effective way to discourage rather than encourage new private plant facilities.

Need to Spur Private Initiative

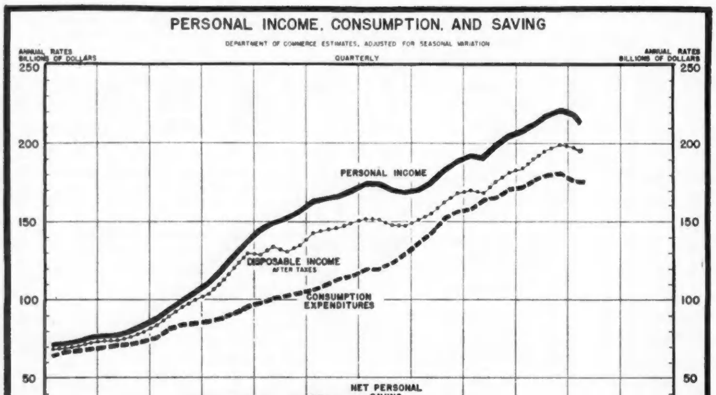
Much more can and should be done to spur private initiative. Depreciation allowances should be greatly liberalized, double taxation of corporate dividends should be dropped, and business generally should be reassured about the intentions of the Government to compete with private enterprise. Above all, unessential Government expenditures should be cut to the bone, paving the way for lower corporate and individual income taxes. This would be the biggest incentive of all. It would be far more effective in halting the recession than any amount of domestic pump priming, with red ink money, and global development programs.

In a sense, the relative absence of really affirmative measures can be viewed as reassuring in that it reflects official belief in the recuperative powers of our economy and in the absence of any real danger of a serious depression. As outlined in the foregoing, some of the measures proposed will help in a moderate way, aided by reflationary policies discussed elsewhere in this issue. But in the end, recovery will come about mainly through the economy's own corrective processes; through inventory reduction which is proceeding rapidly; through cost reduction which calls for increased efficiency and productivity, and which is likewise under way; and finally though price reduction which will grow out of competition and cost reduction.

Private vs. Government Pump Priming

To promote these fundamental adjustments the Government can do relatively little though by constructive policies towards business and investment it can facilitate and speed them. As said before, Government pump priming is not the answer. Government should encourage private capital to prime the pump. There are immense reservoirs of liquid assets to draw upon if the proper climate exists to attract investment.

This climate, however, has not been reestablished by the Presidential report and its implications of policy and approach to the solution of economic difficulties. There has been no essential departure from the Fair Deal philosophy and all it implies, hence the President's formula for meeting the recession is likely to play an important role in forthcoming political debates. Stirring opposition in Congress is proof of that.



Giving Practical Advice to

A LONG TERM INVESTOR

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—WHOSE EQUITY OF $300 IN 1940 PLUS BORROWED CAPITAL . . . INCREASED TO $88,000 IN 1946 AND HAS SINCE DECLINED TO $32,000

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BY OUR STAFF

In our July 2, 1949 number, appeared an article discussing the advantages of long term investment and citing a number of outstanding cases where fortunes have been reaped by investors solely reliant on company growth over a number of years. Few investors, however, are wise or lucky enough to pick just the right equities for such a static program; nor would many have the courage and resources to stick to it through major cyclical downswings. Indeed, the hazard of attempting to "freeze" any investment or to avoid profit taking at proper times has almost disrupted many a promising program. The following excerpts from a recently received letter to us drives this point home.

"Your suggestions for the partial liquidation of my account a few months ago did not appeal to me at the time, even though the market for some of them is now lower. All of my holdings have been selected on a long term basis from a value standpoint. It has been my policy only to replace present holdings when some other issue is found representing better value. While I am aware of the discouragement and extreme patience required in following this policy, it has worked out very well for me in the last ten years. I intend to continue this policy of buying and holding best values when and where I find them and waiting patiently for these values to be reflected in price."

"Even now after the depreciation of the last three years, I still have an appreciation of more than 10,000% on my total invested capital, in spite of the use of borrowed money throughout the entire period. While I have not been successful in calling the turns in the general market and have been inclined to sell too soon in a rising market, I have been rather successful in obtaining the large percentage gains between gross undervaluation and reasonable value, and then transferring funds to other undervalued situations. The result has been that at the 1946 top, my funds were invested in relatively undervalued stocks which since have become more undervalued, but which have proven much more defensive than the issues sold. By this method my equity increased from less than $300 in 1940 to a high point of $88,000 in late 1945 or early 1946. It has since declined to a present value of about $32,000."

"You will admit that even now my program has been rather spectacularly profitable. However, I see now that my rigid policy caused me to lose $56,000 of my capital gains — almost twice today's values of these shares—much of which could have been saved if I had not determined to disregard market fluctuations and hold these stocks through "hell and high water."

"I am very much interested in any method for calling the turns in the general market, as the 1946 top, that might have protected my capital from the serious depletion that has occurred in the last three years. I am not, however, interested at this late point in the bear market of making any sales that would reduce the amount of my holdings. I feel very certain that we are now in the final stage of the bear market, representing a buying opportunity even greater than 1938 or 1942. I do not mean that the market cannot or will not go lower over the months ahead. I do believe, however, that not to buy undervalued stocks is more dangerous now than to buy and hold them."

"For example, U. S. Hoffman Machinery is now selling at approximately 7 against a 1946 high of 47. While I can see the possibility of this stock declining to 5 or slightly under in any bad market over the next few months, I consider it much more conservative to buy the stock at the current market than hope to buy it at 5 and run the chance of missing the purchase entirely. If it does go to 5, more can be purchased as long as any other holding can be sold at a less deflated price. In other words, when a stock of a leading company is selling for less than a fourth of its tangible assets, about a third of its equity in working capital and less than four times its ten year average earnings, it is much more of a gamble, in my mind, not to buy it than to buy it."

—*T.H.B. of Columbus, Ohio.*

A program as outlined above varies of course widely from sound and conservative practice. The basic principle of selling overvalued securities and replacing them with undervalued ones, as followed by the writer of the letter, is commendable.

But it doubtless also has its great difficulties, not the least of them the matter of spotting genuine undervaluation. Quite often these days, stocks appear undervalued but really are not—in the light of subsequent developments. There is weakness in appraising securities on statistics only, such as working capital and asset values, and sometimes even on the historical record of earnings and dividends. Whenever a stock sells at one-fourth of its tangible assets, there is usually a good reason for it.

In the case at hand, though, the portfolio shows that the substantial appreciation realized by 1946, in a short space of four years, was due to purchase of highly speculative issues and on a "shoe string" basis largely involving personal debt. That the program to date has shown such relative success percentagewise is not at all surprising, for it could have been matched by many investors able to trade on margin during an abnormal period of war and postwar boom when very low-priced stocks have gyrated widely in price. Widespread industrial prosperity in the 1940-48 period at times attributed a false value to the shares of many concerns, and even at current low levels their merits may be deceptive.

To hold them in portfolios merely because in 1946 they sold at far higher levels than now, could be a serious error, as the approach of genuine competition may amply prove. The tragic shrinkage in value of our correspondent's portfolio since 1946 was due less to absence of market skill than inability to judge when cash rather than securities should comprise the major portion of holdings. Merely to keep fully invested at all times, though constantly shifting from one stock to another in the search for undervalued situations, was jumping from the frying pan into the fire, for major market downswings embrace practically all issues. Unless this special investor radically changes his methods and by accepting profits at times, builds up his cash reserves he may court further disappointment. What good would it do him if the market declined to near zero on his selected securities and he had no money with which to average or load up? The only answer to his problems we can suggest is rather complete reformation of his policies.

Tested Investment Principles

Our discussion has now reached a point where constructive rather than critical comments on long term investment programs are in order. Our position has always been that primary selection of the soundest equities, together with constant vigilance and readiness to follow somewhat fluid policies, assure far greater chances for long term success than any less conservative methods. Over forty years of experience in guiding investors through many economic storms have proved to us that capital can be enhanced and income improved more reliably by sticking to equities with broad foundations for growth and possessing obvious intrinsic values.

Investors preferring assurance of good average income and an opportunity for substantial appreciation in line with company growth over a period of years now have a wide range of choice among concerns that form the backbone of our economy. The matter of original selection, however, requires informed research that far transcends statistical data and stock market performance. And once a portfolio is well established, it cannot be assumed that periodic check-ups on the ever-changing status of industries and individual concerns, or of stock market behavior, are not needed. To the contrary, though these essentials are within the reach of any investor with access to proper advice, steps must be taken to fully utilize them if disappointments are to be avoided. There is no sound investment program, long or short term, that can be safely "slept on" for long without watching, unless risks will be incurred or opportunities for defending or improving the program wasted.

Investment risks are minimized to some extent by close examination of the past record and future outlook of a given industry. Some that are traditionally unstable or show signs of permanent deterioration should be weeded out. Not so many decades ago, investor regard for street railway securities was high and widespread, but closing of the eyes to coming new transportation methods brought severe grief to many. Over-production by the cotton mills for a long period precluded dividends by some of the strongest units that formerly made regular payments for half a century, though some of these are well on their feet again after years of struggle. The coal industry has had long periods of great prosperity and alternate depression. While some dominant concerns in other "boom or bust" segments of the economy have had the vigor to carry on successfully for a time, their shares are less inviting in the search for long term investments.

Stable and Growing Industries

In contrast, there are plenty of strongly financed enterprises in industries more certain to remain relatively stable, or whose growth potentials are clearly marked. Years of successful competition, dynamic management and brand promotion have given some of them a head start from which they cannot easily be shaken. Many are utilizing their hard won trade position to introduce new products, often alien to their regular activities, and thus give promise of keeping abreast of our changing times. Television, plastics, chemicals, electronics, now enjoy especially wide horizons, while certain producers of automobiles, steel, processed foods, agricultural equipment have established long term records that promise to continue for an indeterminant period. Such of these firms as have successfully implemented postwar modernization and expansion programs financed by retained earnings or borrowing at current low rates seem fortunately situated to continue their long term record of good earning power and well maintained dividends. If so, the price of their shares will improve eventually, closely attuned to their future progress in an expanding economy.

In establishing a long term investment program no fixed formula for procedure is possible, due to varying individual problems faced by investors. Where complete dependence on income is a factor, strong emphasis on dividend stability must be considered in selecting equities. There are, however, a great number of investors able to live on earned income and to set aside sums regularly to build up their portfolios. To these, the dividend factor may be less important than long term increment in the value of their holdings. On the other hand, the fact is often overlooked that reinvestment of dividends, when practical, not only compounds the value of the portfolio substantially but creates a reserve that tends to stabilize the entire program. Employment of the highest grade stocks, accordingly, not only

Long Term Cyclical Fluctuations of Selected Quality Stocks

	1937 High	1938 Low	% Decline	1939 High	% Increase	1942 Low	% Decline	1946 High	% Increase	1946 Low	% Decline	1947 High	% Increase
M.W.S. Combined Stock Index	122.0	44.2	64.6%	73.1	65.5%	41.4	43.5%	191.7	364.0%	129.8	32.2%	148.8	14.7%
M.W.S. 100 High Priced Stocks Index	108.0	48.1	55.5	70.8	47.1	43.2	39.0	112.6	160.5	80.5	28.5	89.9	11.6
Dow Jones Industrials	194.40	98.95	49.0	155.92	56.5	92.92	40.3	212.50	129.0	163.12	23.2	186.85	14.5
QUALITY STOCKS:													
American Can	121	70¾	41.5	116½	64.5	56⅝	51.2	106½	88.0	79	25.8	99	25.4
American Tobacco B	99⅞	58¾	41.2	89¾	53.0	34⅞	61.0	100¼	187.0	76¼	23.4	84¾	11.1
Corn Products Refining	71¼	53	25.6	67½	27.4	42¼	37.6	75¾	79.5	58¼	23.1	75⅜	29.5
Diamond Match	37⅞	20¾	45.5	34½	66.5	18	48.0	50½	180.2	34½	31.7	47	36.3
Dow Chemical	39¾	22	45.0	36⅛	64.4	23¾	34.3	45½	91.6	37⅝	17.3	42⅜	12.6
DuPont	180⅛	90½	49.8	188½	108.0	102¾	45.5	227	121.0	161	29.0	197	22.4
Eastman Kodak	39½	28¼	28.5	37¼	32.0	21½	42.2	52½	144.0	40	23.8	48⅞	22.2
International Harvester	120	48	60.0	71⅝	49.0	40	44.0	102	155.0	66¼	35.0	95	43.4
Johns-Manville	51½	19¼	62.6	35	82.0	16¾	52.1	55¾	233.0	38¼	31.4	46½	21.6
National Biscuit	33⅜	15½	53.7	28¼	82.5	13	54.0	37⅜	187.0	25⅛	32.9	34¼	36.3
National Steel	99¼	44¾	55.0	82	83.0	43¾	46.6	101½	132.0	75	26.1	94¾	26.4
Standard Oil of New Jersey	76	39¾	47.8	53½	34.7	30½	43.0	78¾	158.0	61⅝	21.7	80	26.5
Union Carbide & Carbon	111	57	48.7	94¼	65.3	58	38.3	125	115.2	88	29.6	110¾	25.9
Westinghouse Electric	41⅞	15½	63.0	30¾	95.2	15¾	48.0	39¾	152.2	21⅛	47.0	30½	44.4
Woolworth, F. W.	65⅜	36	45.0	50⅜	40.0	21½	57.0	62½	190.4	43¾	30.1	53	21.2

assures gradual improvement in the portfolio values but also promises to stabilize them in the event of death. A portfolio consisting of more speculative issues might have to be completely liquidated after the demise of the owner and if market conditions are very bad, the low prices obtainable could negate lifelong efforts to build a fortune.

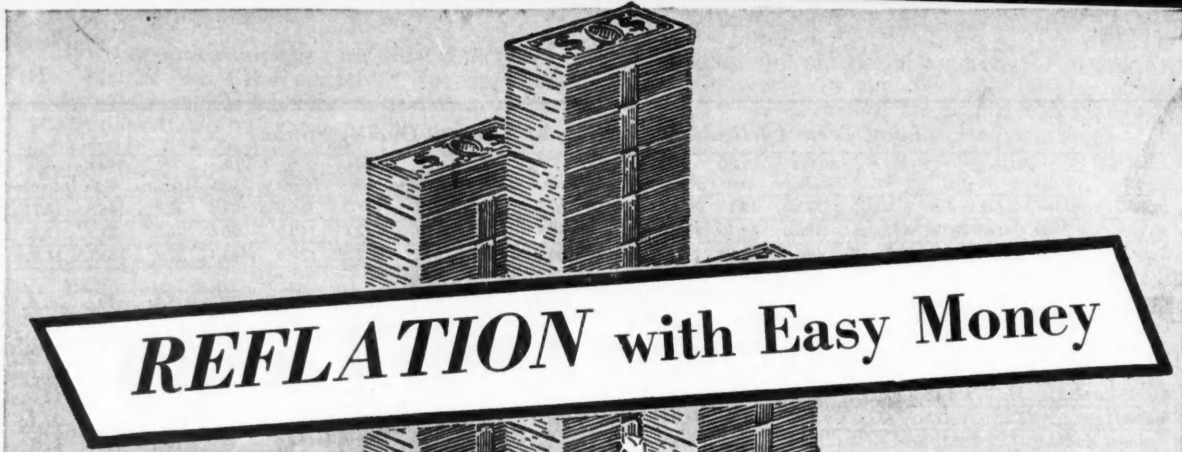
Cautious investors are much too prone, we find, to minimize risk by the purchase of too many different stocks. It seems far wiser to select not more than ten or a dozen top grade issues, thus simplifying the important task of supervising the progress of industry groups and their components in a portfolio. Regardless of the stature and fine record of a given concern, there are bound to crop up periods in our changeable economy when the enterprise may face serious problems for some time ahead. Rather than to "freeze" the investment until more favorable times arrive, it is often sensible to replace it with another equally seasoned stock with a more promising outlook. Such a course by no means implies that the inconvenience of constant portfolio shifts must be endured, for such changes rarely will be necessary.

Need for Flexibility

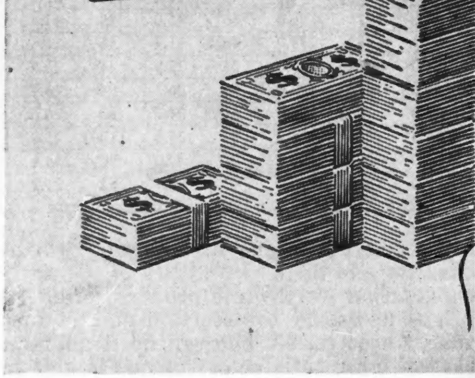
Long term investors as a rule class themselves as such quite frequently through basic dislike of frequent switches, or of anything with a speculative tinge. In other words, they prefer to avoid any attempt to make money by jumping in and out of the stock market to accept relatively short term capital gains. While such policies are not only justifiable but commendable in a long range program, it should not deter investors from nailing down occasional handsome profits when they are presented. No crystal gazing prophecies are involved when it is possible to achieve a profit equal to, say, several years potential income from dividends. The cyclical behavior of the stock market and varying degrees of speculative interest in an equity held for long term purposes often distort quotations both upward and downhill. Since a stock held for more than six months restricts tax liability to not more than 25%, there is a distinct advantage in accepting worthwhile profits now and then.

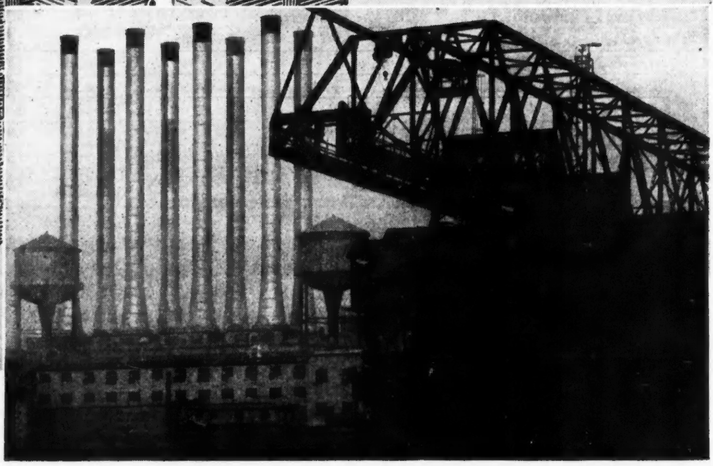
When we mention worthwhile profits, we do not mean that it is necessary to ascertain market tops by some magic process. No one can do it anyhow. Generally it is highly satisfactory if one is able to take profits near the top without being too dogmatic about "how near." There are always reinvestment opportunities in the stock market and there is a strong chance that after a long sustained advance in price, the stock sold can be repurchased at a substantially lower level in due course. In this event the proceeds of the sale will buy a larger number of shares and fortify one's base for the next major upward swing. Such a program is rather devoid of speculative flavor and yet constructive along conservative lines. On an appended table we list a few high grade stocks to show the percentage ups and downs of their prices over relatively short periods in recent years. The gains and losses indicated could be liberally discounted to allow for what the average investor might actually achieve, and yet provide for capital gains far in excess of steadily maintained dividend receipts. In combination, the dividend income, though possibly more spotty, along with profits occasionally taken, would expand portfolio values substantially in the long run and at the same time avoid the regrettable erosion of equity as happened in the case of our correspondent previously mentioned.

This brings us to a final and weighty consideration in outlining the most desirable form of long term investment, the element of cash reserves. In our opinion, an investor is wise if he keeps not less than 15% of his funds in cash or Government securities. Should the price of any stocks in the portfolio become unduly depressed, the available cash will come in handily to average down the original cost of holdings. Such a cash reserve fund could also be built up by deposit of dividend checks, rather than "cannibalizing" them through casual living expenditures. Not every investor has enough business earnings to warrant such a program, but those fortunate enough to do so will be amply rewarded eventually. (*Continued on page* 453)



REFLATION with Easy Money





—WILL IT BE EFFECTIVE?

By JOHN C. CRESSWILL

The latest shift in Federal Reserve policy, impelled by the unflagging pace of the business decline, constitutes an important step in the Government's drive to combat recession by making credit easier and cheaper to obtain.

The Federal Open Market Committee, after consultation with the Treasury, has announced that with a view to increasing the supply of funds available in the market to meet the needs of business, its open market operations will be governed primarily by the general business and credit situation. Thus it was decided to temper the sale of Government securities by the Reserve System, thereby allowing prices to rise. This means smaller yields to purchasers and, it is hoped, will discourage banks from investing too heavily in governments, and may ultimately bring about a cut in the Treasury's short term interest rate.

This reversal from the former policy of keeping basic interest rates in a fixed official pattern means first of all that differences within the Administration over the direction of current economic trends have been reconciled and that the Reserve authorities intend to see that deflationary forces are not accentuated by unavailability of credit. In this respect, the action supplements and strengthens earlier moves such as the easing and subsequent expiration of consumer credit controls, the lowering of stock exchange margin requirements and the reduction in member bank reserves. It thus marks a new attack on deflation but doubtless also an effort to hold down the cost of the Treasury's impending deficit financing.

Marketwise, announcement of the new policy sent Government long term bonds soaring to the levels of the late fall of 1947. Top-grade corporate and municipal obligations shared the price rise but most immediate meaning was seen in the quick depression of the yields on the Treasury's short term securities. The market now takes it for granted that one-year money will eventually go back to 1%, if not lower, compared with the 1¼% rate recently prevailing. The yield on 2½% long term bank eligible governments, in the wake of the price rise, has narrowed to 2.22%; that on Victory 2½s, which are not open to commercial bank buying, on first impact contracted to 2.38%.

Lower Yields — Interest Rates

Marketwise, then, the new policy connotes lower interest rates and yields which will be under downward pressure once more as government securities are permitted to rise in the market. Up till now, the Federal Reserve System has been selling its own holdings to keep prices down, and yields up. The theory is that banks now may be more inclined to lend to private borrowers than to put their money into governments.

What will it means to business? To private enterprise, the latest move constitutes a pledge of easy money if it wants it, but as it is, business needs to borrow less money now. Postwar capital expansion has passed its peak and there is less need for cash to finance new plant and equipment. Moreover, business has been paying off bank loans in huge amounts —fully $2.5 billion since the turn of the year—reflecting inventory liquidation and lower working capi-

tal needs in the wake of declining prices. As one commentator remarked: "You can lead the horse to water but you cannot make it drink." In other words, the new policy cannot make lenders lend, and borrowers borrow; nor can it correct maladjustments within the economy which have arisen from non-monetary causes. But it must, nevertheless, be viewed as an appropriate step in a time of credit contraction if only because it may encourage greater use of the existing money supply though it won't stop the recession in a hurry. While easier credit may mean lower rates on business loans, this alone will hardly force more borrowing until a recovery in production increases the needs of business for funds. But business has been given notice that emphasis and direction of Federal Reserve action henceforth is towards relaxation rather than restraint.

As far as financial institutions are concerned, they must be aware that if they look for earnings from holdings of the public debt in a period of slackening or stagnant business, they will have to be content with lower yields for term investments or with the returns offered by the forthcoming expansion of Treasury bill issues. At the same time, financial authorities are now questioning whether savings banks which recently boosted their dividend rates to 2% will be inclined to maintain that level in the face of falling returns on governments in which they have invested extensively. Some predict the new situation may force a return to the former 1½% rate.

Generally, and as long as the demand for business loans remains low or keeps contracting, all this points to somewhat lower bank earnings though any decline will be at least partially offset by the gain in investible funds due to the lowering of reserve requirements.

Basic Conflict Not New

The basic conflict between credit control and a stable Government bond market is not new. It raged in 1947 and 1948 when a tightening of credit was sought by the Federal Reserve authorities to fight inflation. Efforts to curb credit then were largely voided, however, because at the same time Government securities were being bought in the market by the Federal Reserve banks on a vast scale to peg prices above par. Now the shoe is on the other foot.

The authorities would like to expand credit but they have been hampered in so doing because they have been selling Government securities to prevent a sharp rise in prices. Such sales tend to absorb bank reserves, and thus neutralize efforts to expand credit. Hence the decision to let prices rise by refraining from sales.

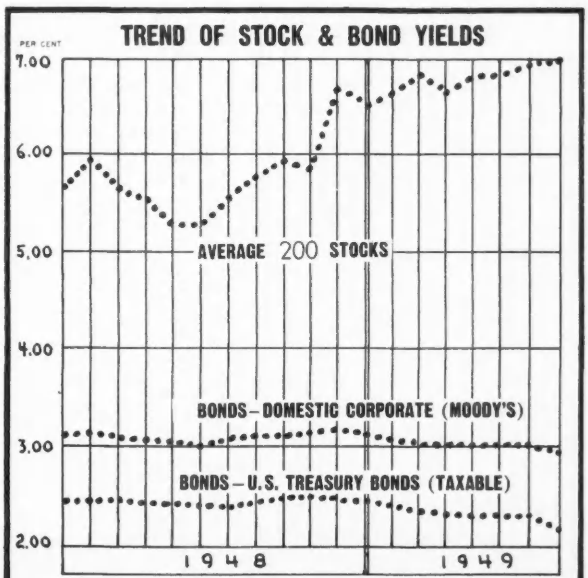
However, while the Federal Reserve System has been lifting the ceiling on bond prices, it intends to maintain a floor. This is important for market confidence, for whenever business turns up again, private demand for capital is bound to rise and Government securities will again be sold. In such an eventuality, the Open Market Committee implies it might resume pegging bond prices on the downside by announcing a continuation of the "policy of maintaining orderly conditions in the securities market, and the confidence of investors in Government bonds." Conceivably, of course, this statement may involve considerable leeway since it does not, on the surface, imply a definite commitment to maintain a rigid rate structure in the government bond market. If prices turn down again at some time in the future, the Committee may not necessarily try to stop them at par as in the past. Much may depend on the interpretation of the term "orderly conditions."

In the meantime, the new flexible bond market policy must be regarded as meaning that purchases and sales of government securities hereafter will be on a scale and at prices within the discretion of the Open Market Committee, and with regard to general conditions as well as the bond market; that is, the extent to which the market will be allowed to rise and interest rates to decline will depend on business conditions and Treasury financing terms. Any further falling off in business activity and commodity prices is apt to reduce further the borrowing needs of corporations, and so increase the demand for Government securities by banks and other lending institutions. By the same token, it can be assumed that the Federal Reserve Board's open market policy will be designed to keep the Treasury's borrowing costs as low as possible.

Adverse Implications

Revival of the easy money policy is not without potential adverse implications. With the interest rate structure again moving downward, the rate of return on savings, already low, is to be depressed further, tending to weaken anew the incentive to save. Those depending on income may be subjected to a new squeeze. Financial institutions will have to adjust their operations to a lower yield unless they expand loans and investments even though this may involve greater risk than they would normally care to incur. If carried far enough, this could have unwholesome consequences.

There is also a stock market angle. The rise in bond prices has brought about a further widening of the spread between bond and common stock yields, favoring a shift from bonds into high-grade stocks. This *could* lead to a progressive firming of prices for investment-grade equities. Bond and stock yields for a long time have been far out of line and the gap can hardly widen (*Continued on page* 449)



TRENDS IN THE MAKING

By E. K. T.

HUSH HUSH meeting at the Blair House can be put down as a hammy performance even for the summer theatre season. Nothing was overlooked in the way of assuring minute press and public attention, inviting speculation. Reporters described departing Presidential conferees as grim, with nothing to say. By agreement, only Mr. Truman could speak: and he refused to comment. The A-Bomb Conference, for it was plainly that (no other topic could bring David Lilienthal and Senator Hickenlooper into the same room), was staged in Hollywood premiere fashion. It won the attention it was designed to get.

BUSINESS calling for genuine secrecy would have been staged aboard the President's yacht, at his summer retreat outside Washington, or a similar hideout—not behind the floodlights that bathed Blair House and the guests as they entered. Adding to the theatrical, the guard was multiplied, the sidewalk roped off. Spectator conversation hummed of war talk, of whether Russia has been found to have the bomb secret. Official silence channeled thinking into what this country must do to meet the threat. Was it coincidence that the meeting was called just as congress took up the Atlantic Pact, re-arming Europe?

EXPERIMENT by the White House, revamping federal purchasing programs with a view to placing orders where their economic effect will be most beneficial, will be watched with interest. Dr. John Steelman has the job of determining which geographical areas could best take the dollars from government contracts, turn them into preservation or creation of jobs. Should the plan work out, states and cities would be expected to adopt it, total controlled purchasing at 60 billion dollars. No increased spending is involved, no new bureau created.

CITING as precedent the Wagner Act which denied employers the right to refuse a job to any applicant on the ground that he is a union member, the Machinists Union is sampling sentiment for a drive to save "over age" workers from jobless rolls. Proposed is a federal law which would make it illegal to refuse employment on the ground of the candidate's advanced age. The barrier formerly arose at 45 years, now rises at 35, says the union. Early responses reportedly suggest barring rejection for physical infirmity as well; reviving the Fair Employment Practice Act campaign. The whole idea is falling of its own weight.

WASHINGTON SEES:

Presidents of the U. S. Chamber of Commerce have a brief turn on the stage and then are gone to the limbo of "elder statesmen of business," but Washington wonders if President Herman W. Steinkraus isn't destined to be an exception.

The national chamber has potential greatness as a carrier of the message of business and industry to the capital. But in the past, its support usually has been superfluous in times of republican party rule, suspect when the democrats are riding high. Its methods and objectives have been unyielding to the times.

Onto the Washington scene this year came Steinkraus, son of immigrant parents, who rose from lowly jobs to industrial heights and election to the chamber presidency in a virtual draft. His first revolutionary change was to make his post a working job—four days a week in Washington; next was to establish the "open door" policy for press and public. Passing over the stony staid clubs his predecessors joined as a matter of course, he picked only the Press Club.

Gazing from his office window across Lafayette Park to the White House, he decided he should visit the President. So he ambled across the green and did so. Strictly informal, and Harry S. Truman loved it. Now he can return any time. Some stodgy members may have shuddered, but Steinkraus won over the press immediately with the comment: "The U. S. Chamber isn't infallible."

As We Go To Press

The prediction that the solid south would be solidly against the program of the Administration which much of the region refused to support in the national election, has not been borne out. The current session, under analysis, fails to establish the charge by northern party-men that their southern brethren run on the democratic ticket so they can support the republican leadership. And on the yardstick of "liberal" used by those who claim to be the custodians of that political principle, the men from below the Mason-Dixon Line have measured up well this year.

When the labor bill was before the senate for final action, 15 southern senators voted for, and 13 against, injunctions to restrain unions whose actions threaten national welfare. Far from a solid vote. In the house, the story was the same: 58 representatives from southern states supported the White House in the plea to save the Thomas-Lesinski labor bill by recommittal, and 63 joined the majority of republicans.

Actually, nothing worked out in the first session of the 81st Congress as the forecasters saw it in their crystal ball. No calm appraiser looked for restoration of the Wagner Act, but most thought the "mandate" would be carried to the point of substantial change in the Taft-Hartley Act. That didn't happen. On the other hand, the Taft support was dangerously weak in victory. Removal of injunctions from the labor law was saved by a scant two votes. Viewed from another angle, the Administration, despite national clamor, won its single major victory -- housing -- with only five votes to spare in the house.

Both parties realize that addition of a mere handful of house seats in 1950 can change the whole situation. It would be almost impossible to switch numerical control of the senate, with only one-third of the membership up for election and many of the incumbents assured of return. So, house control has been set as the major goal and from this point out party, or petty, politics will rule official actions in Washington.

Shifting into high gear, Labor'sLeague for Political Action sees a parallel between the enlarged social security benefits for individuals which it is advocating, and the aids to business which RFC is making available. "If one is socialism, how about the other?" they're asking. Cited is the fact that from 1945 through the spring of 1949, RFC had been getting about 500 applications a month for loans to businessmen. Now applications are increasing. There were 906 in March, 817 in April, and 877 in May.

Point of difference not convincingly overcome by the laborites is the fact that RFC loans, in addition to the several other considerations which caused them to be set up, are straight commercial transactions. The official lending agency will make a profit of 10.6 million dollars when the books are balanced for the 1949 fiscal year. The League's reply: expanded social security payments mean millions of dollars in added purchasing power.

Political pulling and tugging, bitterness and criticism will be the first products of the new housing legislation. They'll come long before any houses are built or slums cleared, and outlive the law. And when the metropolitan areas skim the cream off, there will be precious little left for the smaller communities. With more than 70 per cent of the membership of Congress actually residing in suburban towns (according to a recent calculation), the fight will break out on the floor, and the Public Housing Administration eventually will be the goat.

Most optimistic prediction heard here is that 50,000 dwelling units will get under way in the first year. The country has 472 local housing authorities,

many of which are ready to file for federal aid. Correspondence indicates 300 cities are prepared now to ask for an aggregate of 375,000 units -- five times the first year's quota, and one-half the total contemplated to be built in five years.

Commerce Department is drawing encouraging conclusions from its studies which show a decline of 1.25 billion dollars in May business inventories. Seasonal drop accounted for about 25 per cent of the total, and price reductions come in for a credit on part of the remainder.

But the interesting fact is that the physical decline was great, indicating that shelves are not being restocked -- and that means that there has been a postponement of buying which must end soon. That, to the Commerce Department, means a spurt in business is just ahead. While the government bureau is too touchy on the subject of prices to mention the subject, there are signs of early support for sagging prices, too.

Advocates of a strong merchant shipping system have a job of education to do upon Congress. Regardless of what action is taken on the pending Maritime Commission appropriation bill, it is clear that the underlying thinking of the upper house members does not square with the idea of a merchant marine and the concept of utilizing American-made bottoms, but actually encourages the use of foreign shipyards to build, and foreign hiring halls to staff, the ships. The cost differential in favor of the foreign facilities and men remains, of course, very substantial.

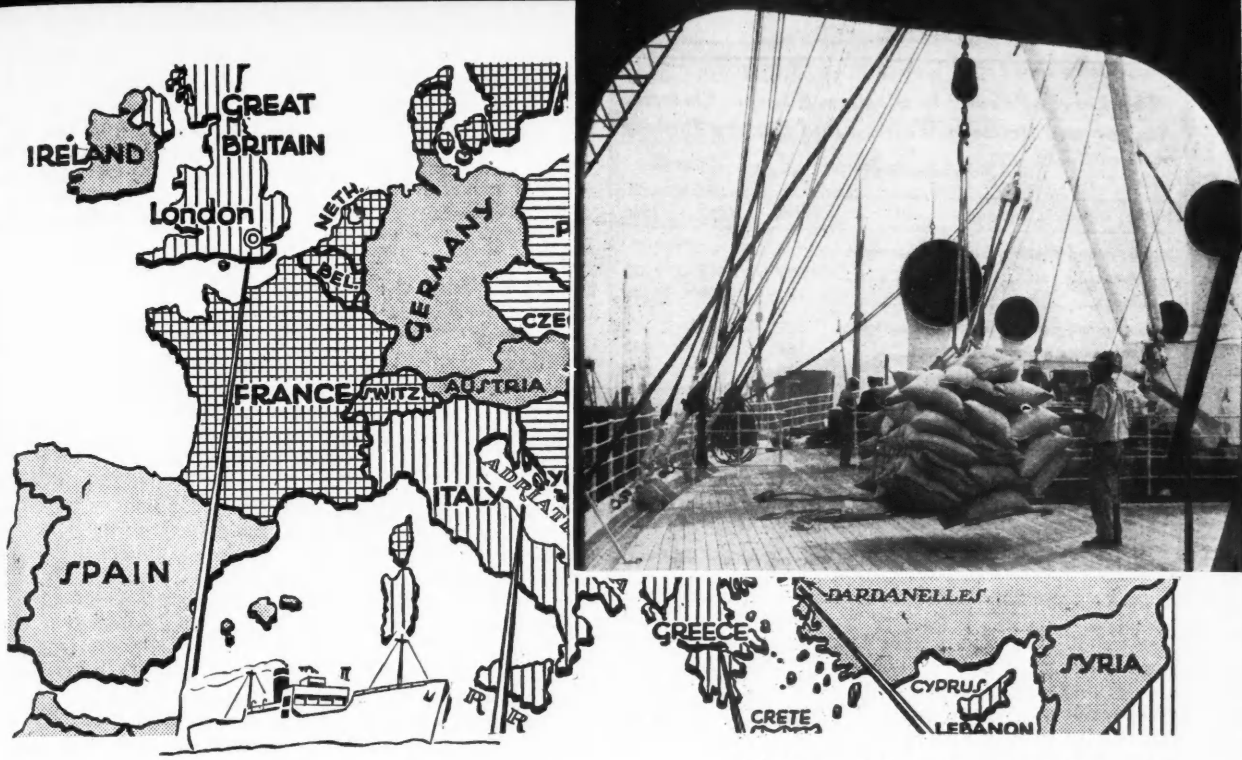
The Commission had submitted a budget of 100 million dollars. Much of that amount was intended to keep domestic shipyards and personnel working, available should national emergency arise. The house committee lopped $15,000,000 off that amount, and the senate went one better by striking out an additional 20 million dollars. This adds to a 36 percent reduction at a time when Congress is talking in terms of 5 to 10 per cent budgetary cuts.

Gov. Dewey's appointment of John Foster Dulles to suceed Robert F. Wagner, resigned New York senator, was likened here to the modern football technic of sending a specialist into the game to perform his specialty, and withdraw. Dulles, all sides agree, is an outstanding authority on world affairs and he came to Washington while debate on the Atlantic Pact was building up a head of steam. But Dulles is no politician, believes it would be a disservice on his part to run for election to the seat he occupies by appointment, and as of today it would be impossible to persuade him to enter a contest. Of course the senate atmosphere has changed other minds in the past, and it may change Dulles'.

The appointment and what immediately followed, wrote new chapters in senate history. Accepted as eminently qualified to enter the current debate, Dulles did so almost before he knew his way around the Capitol. There was no period of "respectful listening," the rule normally followed by freshmen. And in his first speech, he took issue with his own party leader, Senator Taft, and with his close associate in world politics, Secretary Acheson. Dulles won immediate respect in statecraft, but in the knockdown business of electioneering the oldsters were dubious of his chance of success. None more so than he.

The White House and members of Congress friendly to the basic ideas of ECA still are finding it difficult to keep the prime purpose on top, namely, speeding European countries to recovery. Feeling persists on Capitol Hill that domestic recovery is a fundamental part of ECA: witness the McClellan Amendment to list commodities and amounts which must be purchased for overseas shipment, reducing the benefits to any country to the extent that it does not want, or cannot use, the specified goods.

Wholly apart from missing the main target, say advocates of a genuine ECA, is the danger of adding support to Russia's argument that the aid bill was not a gesture of friendship to Europe but was a method to locate a dumping ground for surpluses, stave off a depression in "capitalistic United States."



Appraising the Moves to Revive

Intra-European Trade

By V. L. HOROTH

Considerable thought has been given in recent weeks to the kind of progress made by Western Europe under the Marshall Plan. The occasion has been provided by a number of developments. Debate in Congress in connection with the appropriation of funds to be allocated for ECA was one of them. A financial crisis in Great Britain requiring a substantial slash in dollar imports has been another. Still another, the lack of earnestness on the part of Western Europe in working toward economic unity was brought out only a few days ago by Governor Thomas E. Dewey.

It has been generally conceded that the progress made by the Marshall Plan countries—also called the OEEC countries after the Organization for European Economic Cooperation which sits in Paris and coordinates their economic programs—has been little short of remarkable. Their industrial production exceeds the prewar level (1938) by some 15 to 20 per cent even if the Bizone of Germany is included. In fact it has been the spectacular expansion of Western Germany and Austria that has contributed so much to the upswing. Similarly, through the use of "counterpart funds" Marshall aid has helped to arrest inflation in most of the OEEC countries, the notable exceptions being Greece and Turkey. There is no doubt that as a result of this progress in the direction of expanding production and arrested inflation, Western Europe has been definitely saved from communism.

But the progress toward economic unity and mutual help—most effective distribution and use of Western European resources — has lagged woefully behind. As will be seen from the accompanying table, the volume of trade among Western European countries even in 1948 was still some 30 per cent below the 1938 level. One explanation for this lies in the low level of Germany's trade with her western neighbors. In 1938, Germany exchanged products worth some $2,000 million (exports and imports combined) with other European countries; in 1948, this trade, expressed in 1938 prices, was but one-third as large.

With the exception of coal, steel, machinery, and a few other essentials, trade in the goods that Western European countries used to exchange among themselves before the war is considerably below the 1938 level. Largely because of payment difficulties there has been a tendency to use more and more home produced goods and materials, including waste materials, scrap and substitutes. Also, Western European countries have been withholding some of the raw materials they used to export for further processing at home.

Lack of Integration

In other words, Western Europe's economy is even today—after nearly one and one-half years of the Marshall Plan—less tied together, less integrated than before the war. Apart from payment difficulties, the reason for this has been the emphasis on welfare economics. The goal of most Western European countries is self-sufficiency and full employment—briefly, economic security to the greatest possible extent. They are trying to reduce their dependence upon overseas countries—which is understandable in view of the shortage of dollars—but also upon their neighbors with whom they are supposed to be more and more integrated into an economic unit. They are trying to replace by their

The Level of Trade in Western Europe, Eastern Europe and Between Western and Eastern Europe (In millions of dollars in 1938 prices)			
NOTE: Including Germany	1938	1947	1948
Trade Among Western European Countries			
Actual	4,993	2,964	3,583
Index	100	59	72
Trade Among Eastern European Countries			
Actual	168	259	483
Index	100	154	288
East-West Trade			
Actual	1,751	566	731
Index	100	32	42
Total Intra-European Trade			
Actual	6,912	3,789	4,797
Index	100	55	69

Source: U.N. (ECA Commission) Economics Survey of Europe in 1948.

own production the goods that Germany used to supply before the war. Yet for the sake of European stability, German production must be built up in the course in the next few years to roughly the same position that it occupied in Western European economy before the war.

With each Western European country trying to build itself up into a little autarchy, the result of the present or planned investment programs for industrial expansion must, before long, result in too many textile mills, chemical plants, steel mills and fertilizer factories. For example, should present plans materialize, Western Europe will have nitrogen fertilizer capacity about twice as large as before the war and superphosphate capacity about two and half times as big. This is not taking into consideration Eastern Europe which, too, is feverishly expanding its industrial capacity of all sorts.

E.R.P. Dollar Aid and Intra-European Payments Scheme

(In millions of dollars)

	—Dollar Aid— Total	Basic	Payment Scheme ——Drawing Rights—— Granted	Received	Net	Total Dollar and Net Europe Aid
France	981	971	10	333	+323	1,304
Great Britain	1,239	919	320	30	—290	949
Netherlands	470	458	11	83	+ 72	541
Italy	555	508	47	27	— 20	535
Germany	510	386	124	115	— 9	501
Austria	215	212	3	67	+ 64	279
Greece	145	145	.....	67	+ 67	212
Denmark	109	104	5	12	+ 7	116
Norway	83	67	16	48	+ 32	115
Belgium	248	29	219	11	—208	40
Switzerland	.....	.....	.....	.....	.....	.....
Others	.....	.....	.....	.....	.....	.....
Total	4,756	3,938	818	818	±565	4,756

Source: BIS: 19th Annual Report.

Western European steel capacity by 1952 is to be about 30 per cent higher than before the war. The expansion that was planned to extend over a period of 8 to 10 years will be carried out in less than 4 years. The OEEC has been frantically warning against this capacity expansion, but partly because it has too little authority, and partly because the expansion of certain Western European production was thought desirable for reasons of military security, its warnings have been unheeded.

Need for Collective Solution

What does all this add up to? Unless Western European countries try to solve the problem of their industrial capacity collectively, there is a real danger of overproduction. "Unless this is done" the OEEC report states, "the vicious spiral of the prewar depression will begin again." One of the first to suffer probably will be the Western European textile industry which is already beginning to overproduce. How could this trend be reversed? One way would be to give more authority to the OEEC committees to decide which factories may and which may not be built. But again, internal political pressure—the desire to maintain full employment at all costs—may force individual countries to disregard the OEEC dicta. However, the best way out would unquestionably be to abandon bilateralism and return to multilateralism as much as currency convertibility permits it, and then to loosen up Western European trade by injecting into it the greatest possible dose of old fashioned competition. More competition and less Government control would automatically discourage the building of industrial capacity where there is no need for it from the all-Western European point of view. This would prevent the waste of effort and materials, and in many cases, directly or indirectly, also the waste of the American taxpayer's money.

But all this is easier said than done. The ECA fought hard last month to widen competition in Europe to the greatest possible extent, but in the end had to compromise. What emerged, as will be seen, was an improved intra-European payment scheme into which a very modest element of competition was introduced.

The old Intra-European Payment Agreement was first entered into last October. Its purpose was to remove part of the log jam that clogged the flow of goods among the OEEC countries. It will be recalled that after the war, intra-Western European trade was revived largely on the bilateral basis. Balances in excess of the agreed credit margins were usually paid off in gold or in dollars. As long as some gold and dollars were available, trade continued to flow, but when reserves became exhausted, the deficit countries, such as France or the Netherlands, could buy only as much as they sold and the intra-Western European exchange of goods began to shrink in volume. It would have shrunk even more, if it had not been for the previous accumulation of pound sterling balances on which Western European countries were able to draw. Although eventually even the sterling balances became exhausted, the use of sterling gave some immediate relief from the necessity of bilateral balancing. In the process sterling came to play more and more the role of a Western European clearing currency.

As a scheme to promote the interchange of goods among Marshall Plan countries, the Payment Agree-

ment called first for the estimates of surpluses and deficits that the individual countries expected to have with each other during the nine-month period from October 1948 to June 1949. Once these amounts were established, the creditor country, in this instance for example Great Britain, agreed to grant a credit of $200 million (the so-called drawing right) to a debtor country, in this instance, to France. The total of credits granted by Great Britain amounted, as will be seen from the accompanying table, to £80 million equivalent to $320 million. In return, Great Britain received credits from her neighbors to the extent of about $30 million.

How It Worked

In order to induce the creditor countries to grant these credits, they were linked to ECA dollar allotments. To use an actual example again, Great Britain was given a general allotment of $1,239 million but out of this amount, $290 million were labelled as "conditional aid"—a grant of dollars "conditional" upon Britain granting sterling credits. In principle, if a debtor country did not avail itself of the credit granted to it, the creditor nation (in this case Great Britain) was blocked from receiving "conditional aid" in dollars. Under certain conditions drawing rights and the "conditional dollars" could be transferred, but the limitations were such that for practical purposes no transfers were made. The transferability limitations made it impossible for France, for example, to use its £50 million drawing rights anywhere else in Western Europe except in Great Britain (and, of course, the sterling area countries). Even if she could find cheaper goods elsewhere, let us say in Belgium, she could not use her sterling credit to buy them there.

The New Agreement

This inability of a country to transfer its purchases to the cheapest market available in Western Europe has been used as the chief argument against the inflexibility of the old scheme. The various criticisms of the old payment arrangement were summarized by the National Foreign Trade Council (A review of current developments in the British trade) as follows: (1) It was essentially a bilateral scheme. (2) It lacked flexibility. (3) It provided no incentive for a country receiving drawing rights (credits) to balance its accounts by increasing exports and thereby make use of these rights unnecessary. (4) By limiting transferability of drawing rights, debtor countries were in effect forced to place their orders in a single market regardless of the competitive merits of that market.

These defects were taken into consideration in working a new Payment Scheme to cover the 1949-50 period. The American-Belgian suggestion would have made all drawing rights transferable at the debtor's wish. To this the British were strongly opposed, fearing that the transfer of drawing rights to one country—such as Belgium which may demand under the present arrangements the payment in gold or dollars if its sterling holdings exceed a certain level—could easily lead to a drain on Britain's reserves already below what is considered the "irreducible minimum" of $2,000 million. The compromise as worked out permits a debtor country to transfer 25 per cent of its drawing rights (credits granted). Similarly conditional dollar grants are to be transferable up to 25 per cent. Also a ceiling was put on the Belgian surplus with the OEEC countries.

(A) *Trade Among Western European Countries*

(In millions of current dollars)

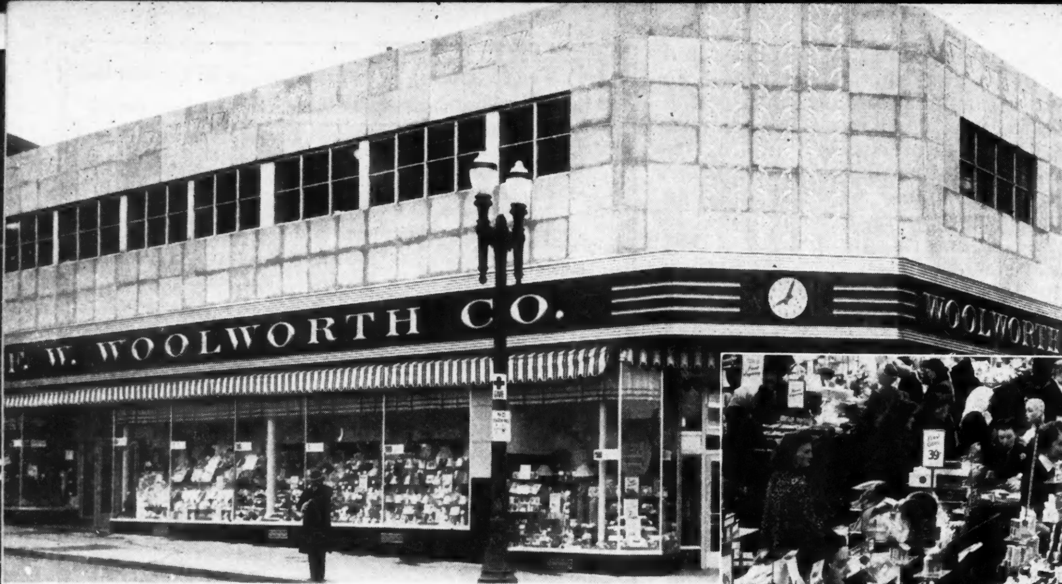
	1938	1947	1948
Great Britain			
Imports	$1,020	$1,075	$1,391
Exports	663	1,295	1,735
Balance	—357	+220	+344
Belgium			
Imports	363	799	905
Exports	453	883	1,003
Balance	+ 90	+ 84	+ 98
France			
Imports	402	631	824
Exports	408	712	805
Balance	+ 6	+ 81	— 19
Germany			
Imports	769	265	538
Exports	1,075	395	737
Balance	+306	+130	+199
Netherlands			
Imports	411	577	835
Exports	367	450	646
Balance	— 44	—127	—189
Switzerland			
Imports	224	531	527
Exports	181	368	394
Balance	— 43	—163	—133
Italy			
Imports	259	271	314
Exports	223	394	459
Balance	— 36	+123	+145
Sweden			
Imports	276	520	639
Exports	317	507	638
Balance	+ 41	— 13	— 1

(B) *Trade Among Eastern European Countries*

	1938	1947	1948
Soviet Union			
Imports	$ 7	$192	$355
Exports	14	173	295
Balance	+ 7	— 19	— 60
Czechoslovakia			
Imports	72	111	286
Exports	45	96	260
Balance	— 17	— 15	— 26

Source: U.N. (ECA Commission) Economic Survey of Europe in 1948.

The question is often asked to what extent the expansion of the trade between Western and Eastern Europe could serve as a safety valve, for there is little doubt that an enormous volume of goods will be pouring out of Western Europe when Germany is fully recovered, and when all the new industrial capacity now being added to the old is brought into production. It will be recalled that under the Marshall Plan, some expansion of East-West trade is favored as one of the means of getting Western Europe on its (*Continued on page* 454)



Investment Audit of

F. W. WOOLWORTH

By STANLEY DEVLIN

To meet rabid criticisms of big business and the free enterprise system, either at home or abroad, the growth and operating achievements of F. W. Woolworth Company furnish highly valuable ammunition. This $342 million merchandising giant, owned by an army of more than 82,000 shareholders and providing jobs for a comparable number of employees, has distributed about $9.5 billion of low-priced goods since the end of World War I in the United States, Canada and Cuba, without allowing for sales in England and Germany. And this accomplishment stemmed from a single "5 and 10" store established in Pennsylvania back in 1879.

That experiment proved successful in attracting trade mainly on a basis of low price, leading to the establishment of numerous similar stores in other locations, with centralized purchasing power, thus attributing to the founder full credit as the creator and leading exponent of modern chain merchandising. By degrees, the company's selling policies were modified to include goods with somewhat higher price tags in order to broaden the scope of operations, until today the average price range in Woolworth stores is from 5 cents to $2.88, and in exceptional cases merchandise marked several dollars higher can be found. By thus enlarging the number of goods placed on the counters, customers may choose from 7,000 to 10,000 different items, all in the relatively low price class.

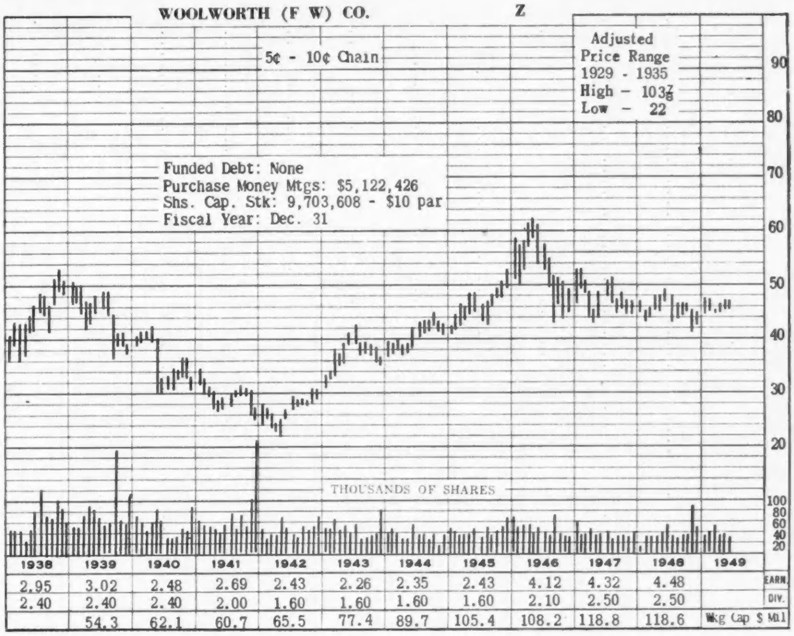
By gradual expansion, enlargement and modernization of its sales outlets through the decades, the Woolworth organization has reached more and more customers and entrenched its reputation. At the close of 1948, the company was operating stores in every state of the Union, or 1,789 in the United States, along with 147 in Canada and 8 in Cuba. F. W. Woolworth & Co. Limited, a subsidiary, operates about 756 stores in Great Britain and Ireland, while despite the devastation of war and political problems, the company's German subsidiary now has 44 stores again operating, mainly in the western zones. In the latter areas, progress towards rehabilitation and modernization has been substantial and

Comparative Balance Sheet Items

ASSETS	December 31, 1940	1948	Change
	000 omitted		
Cash	$ 28,074	$ 68,611	+$40,537
Govt. Bonds & Tax Savings Notes	....	13,825	+ 13,825
Receivables, Net	907	3,085	+ 2,178
Inventories	51,900	84,683	+ 32,783
TOTAL CURRENT ASSETS	80,881	170,204	+ 89,323
Plant and Equipment, Net	118,996	137,069	+ 18,073
Other Assets	56,521	35,012	— 21,509
TOTAL ASSETS	$256,398	$342,285	+$85,887
LIABILITIES			
Accounts Payable and Accruals	$ 10,638	$ 24,936	+$14,298
Tax Reserve	8,204	26,637	+ 18,433
TOTAL CURRENT LIABILITIES	18,842	51,573	+ 32,731
Reserves	6,449	966	— 5,483
Capital Stock	97,500	97,500	....
Long Term Debt	24,440	5,122	— 19,318
Profit and Loss Surplus	109,117	187,124	+ 78,007
TOTAL LIABILITIES	$256,398	$342,285	+$85,887
NET WORKING CAPITAL	$ 62,039	$118,631	+$56,592
CURRENT RATIO	4.3	3.3	— 1.0

operations are very successful; but handicaps are severe where the company stores are struggling to function in Russian controlled territory.

The annual enumeration of Woolworth stores is by no means static, for the company's vast empire has been built through vigorous policies to expand in promising areas and with equal determination to close any units that fail to contribute satisfactory profits to the parent or for other reasons. Last year, for example, 11 new stores were opened on this side of the Atlantic and 12 were closed. More importantly, 26 stores in 1948 were moved to new locations with larger space and improved facilities, while large scale improvements were made to 36 other stores without change of address. Early in 1949, Woolworth had 51 projects under way with plans to increase the number substantially. To service its midwestern units more efficiently, the company is constructing a mammoth warehouse in Chicago with an area of 350,000 square feet, and on the West Coast has moved its San Francisco warehouse into larger quarters with the most up-to-date railroad facilities and modern conveying systems.



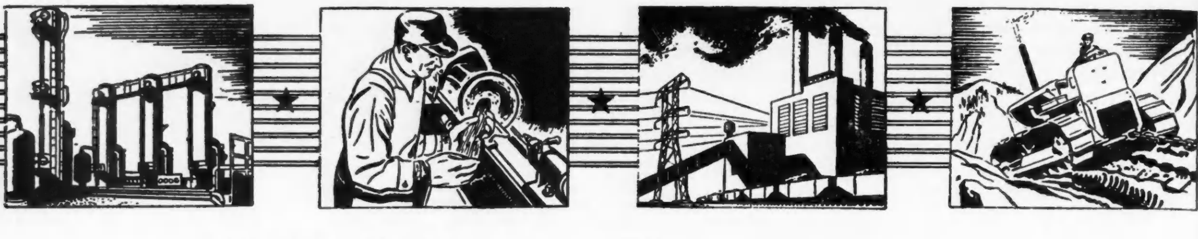
Those of our readers accustomed to visualize a Woolworth store by the old familiar red sign on a relatively modest ground floor location would be surprised to visit one of the company's most modern distributing units in an important city. Entire buildings of striking architectural design, air-conditioned and equipped with escalators and broad aisles attract customers on an increasing scale and permit display of an amazing variety of interesting merchandise. The largest of these stores is in Newark, New Jersey, and another with even finer improvements was recently opened in Philadelphia, an event marked with televised publicity for the first time on record. Brand new buildings are also under way in Chicago, Illinois and Houston, Texas, while in many other centers, Woolworth merchandising appeal has already been strengthened or will soon acquire the most up-to-date "look."

Heavy Capital Expenditures

As is easy to imagine, these large scale improvements have cost a lot of money, and as time passes much more will be required. Outlays of Woolworth for modernization and expansion in the current year will involve at least $21 million, to be spent on 55 stores. There is nothing more characteristic of basic Woolworth policies, however, than the determination to apply to their own operations the same "pay as you go" principles that for almost three quarters of a century have been enforced on their customers. Accumulated earnings rather than borrowing or creation of senior obligations have largely financed the astonishing growth of the company for a long time past and apparently will continue to do so. When some one at the last stockholder's meeting asked the management (*Continued on page* 450)

Long Term Operating and Earnings Record

	Net Sales ($ Million)	Amortiz. of Improv. ($ Million)	Depreciation ($ Million)	Operating Income ($ Million)	Operating Margin %	Net Income $ Mill.	Net Profit Margin %	Net Per Share	Dividends Per Share	Price Range
1948	$623.9	$4.7	$3.4	$62.6	10.0%	$43.5	7.0%	$4.48	$2.50	49⅝-41⅞
1947	593.4	4.4	3.2	61.6	10.4	41.9	7.1	4.32	2.50	54 -43
1946	552.4	4.3	3.1	60.7	11.0	39.9	7.2	4.12	2.10	62½-43¾
1945	477.1	4.5	3.1	51.9	10.8	23.6	4.9	2.43	1.60	53⅜-40⅝
1944	459.8	5.1	3.1	48.7	10.8	22.8	5.0	2.35	1.60	44¾-36⅜
1943	439.0	5.0	3.1	42.9	9.8	22.0	5.0	2.26	1.60	42⅛-30½
1942	423.2	5.2	3.2	44.7	10.6	23.5	5.6	2.43	1.60	31 -21½
1941	377.1	4.7	3.1	36.7	9.7	26.1	6.9	2.69	2.00	34½-23⅛
1940	335.5	4.5	3.0	26.4	7.9	24.1	7.2	2.48	2.40	42¼-30
1939	318.8	4.3	2.7	25.5	8.0	29.3	9.2	3.02	2.40	50⅜-36
10-Year Average, 1938-48	$460.0	$4.7	$3.1	$46.2	9.9%	$29.7	6.5%	$3.05	$2.03	62½-21½
4-Year Average, 1939-42	$363.6	$4.7	$3.0	$33.3	9.0%	$25.7	7.2%	$2.65	$2.10	50⅜-21½



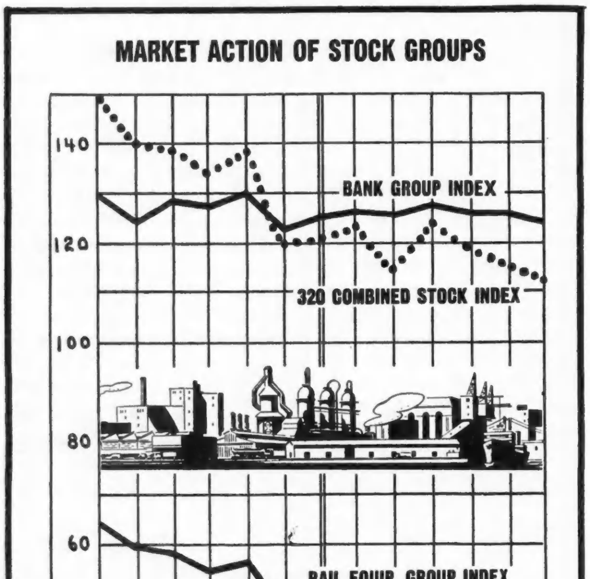
1949 Midyear Re-appraisals of Values, Earnings and Dividend Forecasts

★ ★ ★

Prospects and Ratings for the Railroads, Railroad Equipment Companies, and Outlook for Bank Earnings

Part II

As we cross the half-year mark, we find general economic activity heading further downward with relatively few strong spots remaining in the business picture. In the months past, readjustment has progressed a good deal with considerable acceleration in recent weeks, but the process obviously is far from completed. Naturally, what will happen during the second half of the year is therefore a matter of considerable conjecture and concern.



Some anticipate a further and protracted slump of sizeable proportions. Others feel that the bottom of the recession is coming into sight, that the business slide may come to a halt by year-end and reverse itself early in 1950. At this juncture, however, it would seem hazardous to attempt to set up any sort of a time table. We are still in the midst of transition and while there are a number of encouraging signs that for some industries the worst may be over, most traditional signposts continue to point downhill with varying force. Though in view of many cushioning factors there is good reason to believe that recession will hardly degenerate into depression, the most critical period is likely still ahead, with the prospect that things may get worse before they begin to improve.

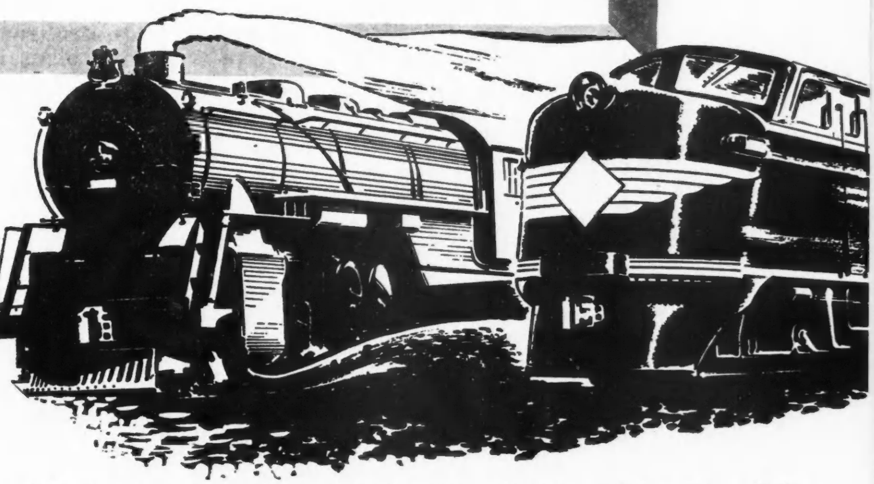
For business as well as the investor, the months ahead thus may bring further and serious tests. To assist our readers in arriving at sound investment decisions under changing conditions, The Magazine of Wall Street presents its 1949 Mid-Year Re-Appraisal Series with particular emphasis on the readjustment progress and outlook for leading industries, and the companies in these industries; the impact on them of price deflation and shrinking volume, what it will mean to profits and dividends, and potential future market action of their securities.

The key to our ratings of investment quality and current earnings trends of the individual stocks—the last column in the tables preceding our comments—is as follows: A+, Top Quality; A, High Grade; B, Good; C+, Fair; C, Marginal. The accompanying numerals indicate current earnings trends thus: 1 — Upward; 2 — Steady; 3 — Downward. For example, A1 denotes a stock of high grade investment quality with an upward earnings trend.

Stocks marked with a W in the tabulation are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. *Purchases should of course be timed with the trend and investment advice presented in the A. T. Miller market analysis in every issue of this publication.*

Diverse Trends in RAILS

— as Overall Earnings Recede



By ROGER CARLESON

Admitting, as one must, a preponderance of adverse factors now present in the rail outlook, the far-sighted investor should examine his position with unusual emphasis on the realities of the situation though without ignoring possible indications that the price pendulum has perhaps swung too far.

There is the fact that in June, rails declined for the third successive month, many to the lowest levels in about five years. The showing of the carrier group for that month, and indeed during the more recent recovery effort, was eminently poorer

This was clearly a reflection of the further downtrend in revenues and profits expected in the second half of 1949 when labor costs will mount at a time of receding traffic. But combined with these direct influences has been the condition of the market as a whole, the widespread apathy toward the entire list of stocks. Consequently, rails have been under a double handicap.

It is no wonder, then, that representative rail shares, such as are included in the accompanying tabulation, have declined to a point where they yield, in a number of instances, well over 10% from dividends already paid, or to be paid in 1949, using an ordinary, conservative appraisal of company capabilities.

Naturally, 1950 and beyond may tell a different story if unfavorable business trends should continue to force traffic to a still lower level, but by the same token the railroad industry may be able by the Spring of next year to show that it has completed its present cycle and is resisting further pressure.

The picture, over-all, is confusing and not clearly definable. But it is far from hopeless, and at least at this writing one should not take the stand, irrevocably, that the dividends of 1949 will be unsafe in 1950. One must stand on middle ground.

Certainly, this is not true of Santa Fe, which may pay an extra in 1949, in addition to the $6 regular; of Great Northern, which should have no trouble maintaining its present $4 basis; of Kansas City Southern, whose dividend of $4 enjoys wide protection; or of Louisville & Nashville, Norfolk & Western, Reading, Seaboard, Texas & Pacific and Virginian, which should experience little difficulty in keeping up their 1949 distributions. And even the high-yielding Southern Pacific and Southern Railway may give up little, if anything of their present dividends.

No one interested in rail securities should fail to make a careful analysis of earnings trends. To weigh properly the present and future, the investor should begin with the understanding that any comparisons with 1948 are made with a *very high base* and this of itself is apt to carry with it considerable distortion, quite apart from the lack of uniformity in different regions were special circumstances prevailed.

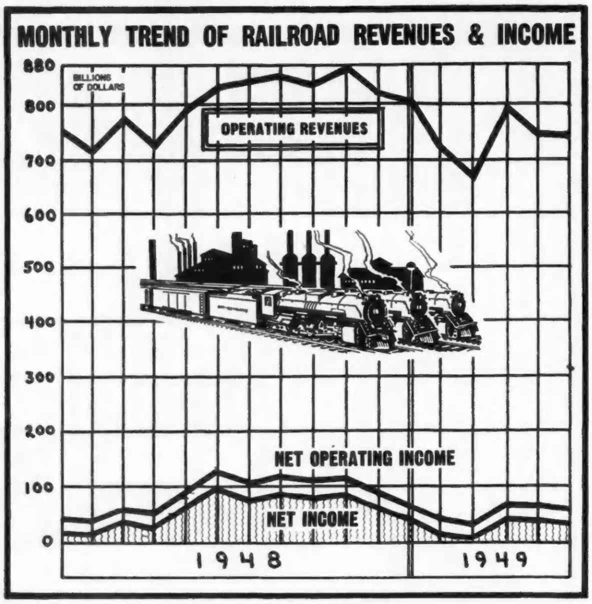
Trend of Operating Revenues

First of all, total operating revenues of all Class 1 roads in 1948 ($9,671,600,000) represented an all-time peak, exceeding by some $235,000,000 the previous record established in the war year of 1944. Also, they exceeded 1947 revenues of $8,686,600,000 by some 11.3%.

Operating revenues in 1941, the last pre-war year, were $5,346,700,000, which means that the gain in 1948 was an impressive 80.9%. Briefly, the excellent showing last year resulted from the heavy volume of peacetime traffic, coupled with substantial increases in rates, fares and charges authorized by the Interstate Commerce Commission.

At the same time, while gross was climbing to its all-time high, wages and other operating expenses were doing the very same thing. Thus, total operating expenses last year rose to $7,471,600,000. This was 9.9% more than in 1947 and 6.0% above the previous peak of $7,051,600,000 established in 1945. Further, operating expenses in 1948 were 103.9% higher than those of 1941.

Net earnings of Class I roads in 1948, after all charges, came to approximately $711,000,000 compared with $498,000,000 in 1947 and $501,400,000



in 1941, carried through from net operating income of $1,002,400,000. The latter was noteworthy because operating net has exceeded the billion dollar mark in only five years—the war period, from 1942 through 1944, the "boom and bust" year of 1929—and in 1948.

Naturally, in the forepart of 1949, Eastern roads made the best individual showing because the comparison was with storm-depressed profits of early 1948. On the other hand, in the West, most roads were handicapped in the early months of 1949 by the severest winter weather ever faced. In the South, the group change was relatively unimportant on a year-to-year basis, although there was considerable variation in individual cases.

1949 Results To-Date

Official statistics for the industry, as a whole, are available on a partly estimated and partly actual basis, only through May. Surprisingly enough, Class I gross in the first five months of 1949 was $3,633,821,631, a decline of only 3.6% from the $3,768,613,307 reported for the corresponding term of the year before. Operating expenses for this period came to $2,967,102,341, a falling off of 1.8% from the $3,022,827,278 of 1948.

Both net operating income and net income showed wider changes from the previous year. Estimated net income for the period through May was $130,000,000 as against $167,000,000 in 1948, all that remained from net railway operating income of $250,774,199 and $285,928,720, respectively.

The pattern varied according to territories. In the eastern district, for example, estimated net for the five months was $67,000,000, a gain of $15,000,000 over the 1948 period when weather conditions seriously hampered operations and lifted maintenance. In the southern district, estimated net income was $29,000,000 compared with $36,000,000 for the like term of 1948, while estimated net of road in the western district declined from $79,000,000 in the initial five months of 1948 to only $34,000,000 in 1949. reflecting the poor start this year because of the ravages of winter storms which all but paralyzed many lines for weeks.

Seldom has it been more difficult to forecast railroad profits than at present. First, there is grave uncertainty as to the labor situation in heavy industries, notably steel, once the truce, or "fact finding" period ends. Regardless, steel output has been declining more rapidly and continuously than anticipated.

There remains, too, the bituminous coal industry's problems and miners have returned to the pits only under a curtailed schedule and without a contract. Steel and coal, together, always play a vital role in determining railroad gross, particularly for the large eastern trunk line systems.

On the other hand, the agricultural movement should be satisfactory, but with some shading of early optimistic estimates as to shipments to allow for the new policy of encouraging farm storage of grain crops. As for the export movement to ports, the trend is likely to be less favorable in the East than on the Gulf because of diminished purchases by Great Britain and possibly some slowing of the momentum of Marshall Plan shipments.

Cost Problems

Cost problems will be aggravated on September 1, 1949, by mandatory institution of a forty-hour week with forty-eight hours pay for nearly 1,000,000 non-operating employees. Many estimates have been made as to the cost of the new work schedule, which was accompanied by a seven-cent hourly wage increase, retroactive to October 1, 1948. Perhaps as close a figure as any would be $500,000,000 *on an annual basis.* Naturally, the cost for 1949 would be appreciably less since it will apply only for a four months' period.

As an offset to this further rise in expenses, the industry has instituted many economies, together with increased mechanization of operations. Diesels, more and more, are replacing the old steam locomotive. There have been more frequent lay-offs of employees, both operating and non-operating; facilities have been consolidated at terminals and way-stations and concentration by all lines has been on enhanced efficiency.

Other than this, the roads have placed their hopes on a further freight rate increase — an additional 6½% is still being sought—plus an upward adjustment of 12½% in basic passenger fares asked by the Eastern carriers. However, it is difficult to see how a freight rate hike, as now could be effective for the remaining months of 1949, would add much more than $175,000,000 to gross.

Passenger Fares

As for higher passenger fares, these might serve only to divert new business to the revitalized air transport industry which once more is giving evidence of standing on its own feet, with probability of a new volume of traffic for 1949 exceeding the previous high of 6,307,690,000 passenger miles attained in 1947. Hence, even with higher tariffs, it is most improbable that passenger service on Class I roads can be operated profitably—something which was possible only in the war period. In 1948, for example, the passenger deficit for all systems was at a new peak of $559,000,000.

Allowing for all uncertainties in the industrial and economic situation, (*Continued on page* 449)

(*See table on next page*)

Statistical Position of Leading Railroads

	Net Per Share 1947	1948	5 Mos. 1949	Est. 1949	1948-49 Range	Recent Price	Est. 1949 Div.	Div. Yield	Investment Rating	COMMENTS
Atchison, Topeka & S. F. W	$17.11	$23.33	$4.35	$15.00	120⅝-80	$85	$6.00	7.06%	B3	Operating economies, largely through diesels, will hold earnings at a level substantially in excess of regular $6 dividend.
Atlantic Coast Line X	7.28	9.32	6.31	6.50	62 -32½	35	4.00	11.42	B3	If the present $4 dividend is to be maintained in face of a further slump in traffic, strong support from "other" income must come via L. & N. and Clinchfield.
Baltimore & Ohio	*def.19	*2.12	*.24	*1.00	16⅞- 7⅜	8½	Nil	......	C3	In view of steel industry conditions and labor problems in the bituminous fields, this is a risky speculation, at best.
Canadian Pacific	2.04	1.70	def.12	1.50	19 -10	12	1.25	10.42	B1	Aid from increased Dominion freight rates has long been delayed, but is in sight. Has large investment income as dividend bulwark.
Chesapeake & Ohio	4.44	3.72	1.69	3.25	45¼-29¾	30½	3.00	9.84	B2	No longer the investment situation of former years, but dividend probably will be maintained.
Chic., Milw., St. P. & Pac.	*.49	*def.33	*‡def2.54	*def2.50	13¼- 4⅝	5½	Nil	......	C3	Poor results probable in 1949, but operating economies are being stressed to bolster future earnings. Dividends out of the question.
Chicago & North Western	*.66	*2.93	*‡def10.24	*.25	23⅜- 9¼	11½	Nil	......	C1	Nothing is likely to be available for dividend in 1950 (from 1949 earnings). Late crop prospects satisfactory, however.
Delaware & Hudson	11.42	13.95 a	†1.24	7.00	50½-26	29	4.00	13.79	C3	Holding company profits should continue at a rate sufficient to support dividend, but long term prospects are drab.
Erie Railroad	1.16	4.09	.51	2.25	16½- 9¼	10½	1.25	12.19	C3	Needs large volume of traffic to assure continuance of dividends. Steel and coal trends will determine policy of board.
Great Northern Preferred W	7.28	8.91	def0.73	5.50	50⅞-33¼	35½	4.00	11.27	B3	Lowered fixed charges, well-sustained traffic and "other" income give adequate protection to $1 quarterly dividend.
Gulf, Mobile & Ohio	*2.66	*4.92	*1.11	*2.25	20⅞- 9⅛	11	.75	6.82	C+3	Competitive influence of Illinois Central an adverse factor, but diesel economies and increased efficiency may permit small dividend.
Illinois Central	10.25	14.60	4.22	8.00	42⅜-22½	25	Nil	......	B2	Has developed substantial earning power which will continue an important market influence.
Kansas City Southern	9.75	15.51	5.50	9.50	48¼-34¼	39	4.00	10.25	B2	Remains fairly attractive, predicated on the potential satisfactory coverage or the $1 dividend.
Lehigh Valley	*.71	*1.16	*‡def.02	*.50	8¼- 3⅝	4	Nil	......	C2	Completion of debt adjustment program may work to the advantage of this highly speculative issue over the longer term.
Louisville & Nashville W	5.68	7.91	2.00	4.50	50 -31⅝	33	3.52	10.67	B2	Current low market level has largely discounted indicated earnings decline. Present $3.52 annual dividend appears secure.
Minn. & St. Louis	3.25	3.69	.67	2.50	16 -11	11½	1.00	8.69	C+3	All funded debt has been eliminated. Lower profits should not impair regular dividend.
New York Central	.36	2.28	.44	1.25	18½- 9¼	10½	.50	4.76	B2	Would benefit importantly from further freight rate increase, but earnings uncertainty may prevent a second 1949 dividend.
N. Y., Chicago & St. Louis	17.83	39.09	13.40	25.00	92 -39	66	Nil	......	C+2	Impending stock recapitalization and substantial earnings will remain chief factors in situation.
Norfolk & Western W	6.12	6.75	2.14	5.00	62⅞-49¾	50	4.00	8.60	A2	Will lose traffic through coal mine stoppages, but $0.75 quarterly is assured. Extras may continue as an investment factor.
Northern Pacific	5.40	4.97	def1.63	2.75	27⅜-11½	12½	1.50	12.00	B3	Pronounced downtrend in earnings will make for dividend conservatism this year.
Pennsylvania	.55	2.61	.30	1.50	22⅛-14⅛	15	1.00	6.67	B3	Seriously affected by business recession and rise in operating costs. Dividends may total $1.
Reading X	3.87	5.44	1.17	2.75	27⅝-17¾	19	2.00	10.53	C+2	Has been able to hold its own despite business decline. Dividend should be earned and paid.
St. Louis-San Francisco	*2.25	*3.46	*.16	*1.75	16½- 7½	9½	1.00	10.52	C3	Traffic losses, mounting costs are offsetting higher rates and use of diesels. Future dividends doubtful.
Seaboard Air Line	2.22	6.59	2.23	3.50	26½-13⅛	14½	1.00	6.89	C+3	Substantial losses in passenger business may cut sharply into earnings, yet modest dividends should continue.
Southern Pacific X	8.84	10.27	1.62	6.75	62⅜-32½	36	5.00	13.89	B3	Strength of financial position could permit maintenance of $5 dividend since this is fundamentally a strong carrier.
Southern Railway X	6.85	12.52	1.63	6.50	50¼-25⅛	28	4.00	14.29	B3	Profits will be sharply lower in 1949, but sufficient for $1 quarterly dividend over near term.
Texas & Pacific X	11.02	15.05	3.65	8.75	65¾-36	40	4.00	10.00	B3	Revenues reflecting loss of special oil movement. However, ample coverage for $1 quarterly dividend is indicated.
Union Pacific W	11.35	14.24	1.65	9.50	96 -73¼	78	5.00	6.41	A3	Large, non-rail income, especially from oil, will hold profits at a level well in excess of indicated regular $5 dividend.
Virginian Railway	4.48	4.31	1.59	3.50	38½-27¼	28½	2.50	8.77	B3	Bituminous work stoppages may curtail revenues, but this conservatively-managed road should maintain present $2.50 annual dividend.

*—Available per share.
‡—After contingent interest only.
†—4 months.
a—Railroad company only.

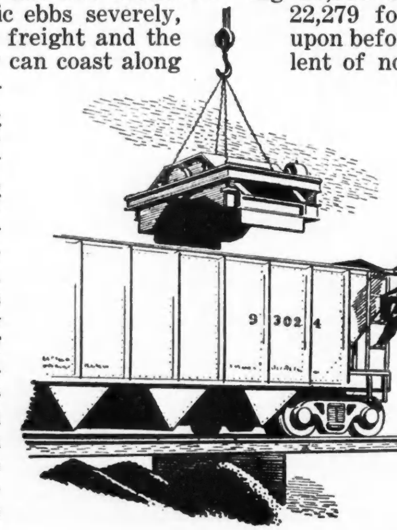
Rail Equipments

Face Rapid Shrinkage ...of Backlogs

By GEORGE W. MATHIS

"Bleak" seems to be an appropriate term in appraising the outlook for builders of railway rolling stock, with producers of freight cars experiencing a near vacuum in new orders. Unfilled orders carried over from last year have sustained production by a number of concerns in the first half year, but the steady evaporation of backlogs is approaching a climax that may result in widespread plant shutdowns unless a reversal sets in. Manufacturers of diesel-electric locomotives or passenger cars are somewhat more fortunately situated, for their slower rate of output may keep them busy for quite a long period.

All difficulties in this segment of the economy stem from sudden virtual withdrawal of the railroads from the equipment markets early in the current year, a step which they have traditionally taken in the past at the first signs of a business recession. In such periods when rail traffic ebbs severely, fewer cars are needed to carry freight and the railroad managements find they can coast along comfortably with what serviceable cars are at their disposal. Additionally, the prospect of lower steel costs stimulates caution in placing forward orders, while under the influence of heightened competition more favorable terms from the car manufacturers may be anticipated.



The present period contrasts strongly with conditions hardly a year ago, when scarcities of steel left freight car manufacturers hopelessly struggling to achieve a monthly production quota of 10,000 units and when backlog orders soared to more than 125,000 cars. Only in occasional months last year was the output goal reached, though easing steel supplies enabled the industry to turn out a record of about 11,000 new units in March. Since then deliveries have tapered off significantly, production in May falling to 9,525 cars and in June to 9,121; in the latter month, car builders accounted for only 5,805 with railroad shops delivering 3,316.

Since last January, new orders have been merely dribbling in, totaling only 589 in May, for example: Orders for only 2,985 freight cars, 69 diesel locomotives and 13 steam units were booked in the entire first quarter and for the first five months, freight car orders rose only nominally. Now that weekly car loadings are hardly more than 660,000 compared with above 900,000 at the peak of the recent boom, and after allowing for retirements, and with the railroads having more than 15,000 more cars on the tracks than at the start of 1949, it can be readily seen why new orders have slackened. Net earnings of the larger car builders, mainly derived from almost complete reliance on backlog orders, should be fairly satisfactory for the first half year, but thereafter a substantial downtrend should begin to get under way, with final quarter profits results possibly a dismal stage.

According to the American Railway Car Institute, backlog orders for freight cars on July 1 totaled 42,813 units compared with 122,181 as of July 1, 1948. On the recent date, railroad shops were building 20,534 of the cars themselves, leaving only 22,279 for the combined carbuilders to work upon before running out of orders, or the equivalent of not much more than two months' production. But since backlogs vary among the various concerns, some will have to curtail operations sooner than others, unless the unexpected happens and substantial new orders begin to flow in. One factor that may influence the railroads to apportion a somewhat larger share of orders to independent car builders is that their own operating costs have risen as a result of a 7 cents per hour wage boost to non-operating employees, retroactive to October 1, 1948. But even if they do, it could hardly represent more than a token advantage, unless over-all orders were substantially expanded.

Percentagewise, the amount of carbuilding by the railroad shops has risen significantly. In normal times the independents have counted on 80% of the total business but currently they are getting only about 60%.

While the larger concerns have somewhat more satisfactory backlogs than a dozen or more smaller competitors, some have already begun to curtail operations in order to string out work as long as possible. Pressed Steel Car, for one, has closed one plant for a month or more and plans to shut down another in August. In other instances, schedules have been cut to 50% of capacity. Efforts to land orders for repair work have been met with partial success by a few companies and this may serve to prolong their activities.

Discouraging as the near term outlook for freight car builders is, it is possible of course that this "feast or famine" industry will experience smoother going after a rather brief depressed period. For many months past there has been talk of a Federal program to stockpile a huge number of new freight cars as a measure of national defense and to relieve the railroads of the tremendous expense. If the freight car manufacturers become seriously depressed, as now seems likely, this proposal may receive favorable response from Congress when it reconvenes, though no immediate action will be possible. Another factor that may be significant is the sizable number of large equipment bond issues now being placed on the market by many railroads. The low rate at which these issues can be sold is a strong inducement to railroad borrowers, but it is hard to say whether the proceeds of recent loans will be utilized to pay for diesel locomotives, passenger cars or for freight units. The soudest base for predicting an upturn in orders for freight cars before too long is the stark fact that more than 7,000 old ones are currently junked every month.

Pullman, Inc., the (*Continued on page* 453)

Position of Leading Rail Equipment Companies

	1948			First Quarter 1949							
	Net Sales ($ Mill.)	Net Margin	Net Per Share	Net Sales ($ Mill.)	Net Margin	Net Per Share	1949 Est. Net Per Share	Recent Price	Price Range 1948-49	Investment Rating	COMMENTS
Amer. Brake Shoe	$120.2	4.3%	$4.42	$29.9	4.9%	$1.28	$4.75	$31	43⅝-30½	B2	Promising outlook for replacement demand suggests that total 1949 dividends may equal $2.50 paid last year.
Amer. Car & Foundry	131.4 a	3.1	3.47 a	95.4 b	3.8	4.32 b	4.85 a	25	49⅛-21½	C+3	Current year earnings may support quarterly dividends at current 75 cents a share rate but further continuity uncertain.
Amer. Locomotive	143.9	3.8	2.30	......	......	......	2.50	13	26¾-12⅜	C+2	35 cents quarters dividends seem rather high in view of limited coverage and possibly lower earnings.
Baldwin Locomotive	126.4	2.5	1.26	31.4	2.9	.37	1.50	9	17¼- 8⅝	B2	Cessation of dividends from Midvale Steel may somewhat restrict earnings but 25 cents quarterly may continue to be paid in near term.
Budd Co.	219.6	4.3	2.48	67.4	5.6	1.04	3.80	8	11⅞- 7½	B1	Production of stainless steel passenger cars not profitable but large output of automotive items more than an offset. Dividends seem secure.
General Amer. Trans.	97.5	6.8	5.72	31.2	5.8	1.58	5.50	45	53½-42	C+2	75 cents quarterly dividend amply protected by earnings and stability indicated.
General Rwy. Signal	14.5	9.7	3.88	3.0	7.1	.56	3.70	16	29 -15¼	B3	Moderate decline in earnings anticipated but no threat to conservative 25 cents quarterly dividend.
Lima-Hamilton	60.9	7.0	2.18	14.0	......	.77 c	1.90	8	13⅝- 6⅝	B3	Combined demand from abroad and from coal carrying railroads for steam locomotives diminishing and earnings may recede but conservative 15 cents quarterly dividend probably safe.
New York Air Brake	18.6	8.8	6.35	5.1	11.2	2.23	5.50	26	43¾-24¼	B3	Current earnings assure stability of 50 cents quarterly dividend but medium term uncertainties cloud later prospects.
Poor & Co. "B"	23.0	6.6	3.33	6.6	7.3	1.10	3.20	10	16⅜- 8⅞	C+3	Slightly smaller earnings likely in 1949 but 25 cents quarterly dividends seem safe and year-end extra possible.
Pressed Steel Car	57.6	......	def2.36	15.3	3.7	.49	.50	5	11⅝- 4⅝	C+3	First quarter results in the black after previous heavy deficits, but no dividends in sight for common stock.
Pullman	285.9	2.9	3.18	74.5	2.7	.79	3.20	32	53 -30⅛	B2	50 cents quarterly dividend easily assured by current earnings and strong cash resources.
Symington-Gould	15.5	1.8	.28	3.8	6.6	.25	.80	4	7⅜- 3⅝	C1	Strengthened cash position may continue payment of 50 cents a share in 1949, though earnings may not fully cover. Outlook uncertain.
Union Tank Car	18.9	21.5	3.77	4.1	......	......	3.60	33	41⅞-31	B2	Net earnings may not fully match 1948 but dividends at the 65 cents quarterly rate unlikely to change.
Westinghouse Air Br.	89.9	17.6	5.00	23.9	15.8	1.20	4.50	24	39⅝-21¼	A3	Downtrend in earnings expected but last year's net of $5 per share provides an ample cushion for dip. 50 cents quarterly dividend secure and extra may be paid later.
Youngstown St. Door	18.2	11.0	3.02	3.3	......	......	2.60	11	19⅝-10½	B3	Lower earnings indicated for current year but 25 cents quarterly dividend well covered.

a—Fiscal year ended April 30. b—Six months ended October 31, 1948. c—Six onths to June 30, 1949.

Mid-Year Outlook for
BANK STOCKS

By J. S. WILLIAMS

The inherent stability of the banking business was amply demonstrated in the first half year. Net earnings of the leading institutions varied little compared with a year earlier, some advancing rather slightly while occasional declines were moderate. Dividends continued to represent a modest share of net and, despite some significant operating trends, seem pretty certain to remain unchanged throughout 1949.

Considering that member banks in New York City have recently reported a decline in business loans for the nineteenth consecutive week, with the total reduced to around \$4.6 billion, lowest since September 17, 1947, it is interesting to note how well income from other sources has helped to stabilize overall earnings. As a result of widespread inventory liquidation since the first of the year, borrowers in many sectors of the economy have been able to retire bank indebtedness at a rapid and accelerated pace, though this may soon slow up and perhaps reverse because of seasonal influences. Business firms in every category thus far in the current year have paid off about \$2 billion of debt to banks on a country-wide scale, thus reducing institutional earnings assets and income derived from this source.

Until the end of the first quarter, banks were rather slow in accumulating investments as a means of employing the mounting volume of funds thus made available. Since then, however, they have added to their investment holdings faster than the decline in loans, a factor that has aided in stabilizing operating earnings. Income from business loans ordinarily is at a higher rate than from investments, so that the latter require heavier acquisitions to provide an adequate offset. The action of the Federal Reserve Board on May 4 in lowering reserve requirements of central reserve banks to 24% from 26% and those of other member banks by 1% released a substantial amount of funds for investment, and now that the FRB has openly abandoned its market pegging policies for Government bonds, the banks have been substantially increasing their holdings.

But while earnings of the New York banks in the first half closely equalled the 6% on capital funds reported for full 1948, it is quite possible that the return may diminish moderately from now on, and perhaps for some time to come. Aside from a probable temporary uptrend in commercial loans this fall, there is little in the medium term outlook that promises to stimulate borrowing by business concerns. To the contrary, the virtual assurance of a reduced price level will diminish working capital needs and may lead to the continued prepayment of bank obligations after a brief pause. Also, the firmly established easy money policies of the Treasury will tend to bring lower rates on business paper at a time when yields on all securities with a fixed rate seem likely to diminish.

As matters now look, the Treasury Department views with favor the current uptrend in prices for government securities, as it should enable Washington to accomplish renewals of bills at perhaps as low as 1%, and to do some sizable deficit financing on unexpectedly favorable terms. It seems very doubtful, therefore, that the banks can find an outlet for their investable funds profitable enough to offset completely their lower income from business loans, unless they follow the example of the big insurance companies and accept much longer maturities than formerly. It is easy to see that earnings potentials hinge largely on how big a deficit the Government will have to finance, as well as on the speed and extent of industrial recovery or stabilization.

Further Rise In Deposits

Regardless of what rates may be obtainable on either loans or investments, the large New York banks are likely to experience a rise in deposits that can be put to work. In the first week of July, demand deposits of the local banks were swelled by \$379 million from banks in outside centers unable to utilize cash released by the more liberal reserve requirements. Deposits from this source are likely

to expand further as time passes, as are also those from many industrial concerns as a result of inventory liquidations. Any deficit financing by the Government of course will tend to increase the earning assets of the banks. To some extent, accordingly. they will benefit from these combined influences.

Another constructive factor in the picture is that most of the large banks last year not only lifted their service charges and fees on special accounts but also were successful in achieving many operating economies. Departmental reorganizations and installation of modern cost-saving equipment contributed to reduced operating expenses. Income taxes of all member banks in 1948 were lowered to the extent of about $23 million by the Internal Revenue ruling on reserves. The banks should continue to benefit as regards earnings in 1949 from all of these advantages. And now that the trend of most bond prices is upward, some substantial capital gains may be realized to bolster final "indicated" earnings, or net profits after all adjustments.

To show how confidently investors in the leading banks may be assured of dividend stability in the current year, it is only necessary to examine the relationship of distributions last year to net earnings. Net operating income of member banks (after taxes) rose to a new peak of $799 million, but a newly established item allowing for "net additions to valuation reserves" reduced net indicated earnings to $621 million. Payment of $294 million in dividends by the group represented only 47% of available net, thus providing a highly dependable cushion against slightly lower earnings which may be in store. Chances are slim that the current year will bring increased dividend liberality by the majority of banks, but assurance seems equally warranted that few if any cuts will be made. Meanwhile, the book value of bank shares and the basic strength of the respective institutions is being steadily enhanced.

We append a statistical table showing book values, deposits, total assets, relative portions of total assets represented by U. S. securities or loans and discounts, together with earnings and dividends of seventeen large banks in New York City and other leading centers. The relatively riskless status of these banks is well shown by the fact that only 28.8% of their total resources is represented by loans, compared with 36.3% invested in Government securities, though the percentages vary considerably with individual institutions. At one extreme is the Corn Exchange Bank and Trust Company with cash on hand and due from banks of about $220 million, U. S. Government securities of $466 million, and with loans and discounts of only $69.9 million. In other words, 60% of the total resources of this bank were represented by Government securities and 8.8% by loans and discounts. At the other extreme we find the largest bank in the United States, Bank of America N. T. & S. A. (California) with 48.4% of total assets in loans and discounts against 26.8% in Government securities. Accounting for the variation between these two sound banks is the difference in the character of their clientele and in procedural policies.

National City Bank of New York

Total deposits of the National City Bank of New York as of June 30, 1949, amounted to $4.57 billion, giving it second rank in the over-all roster. Total resources of the bank were about $50 million smaller than a year earlier, and holdings of Government obligations were about $67 million lower. Loans and discounts of $1.36 billion were lower by $26 million than at the end of last March, in reflection of diminished business borrowings. Excluding earnings of City Bank Farmers Trust Company, net of National City Bank for the first half year was reported as $1.53 per share, almost equal to total dividends of $1.60 per share paid during all of 1948. The diversified operations of this (*Continued on page* 450)

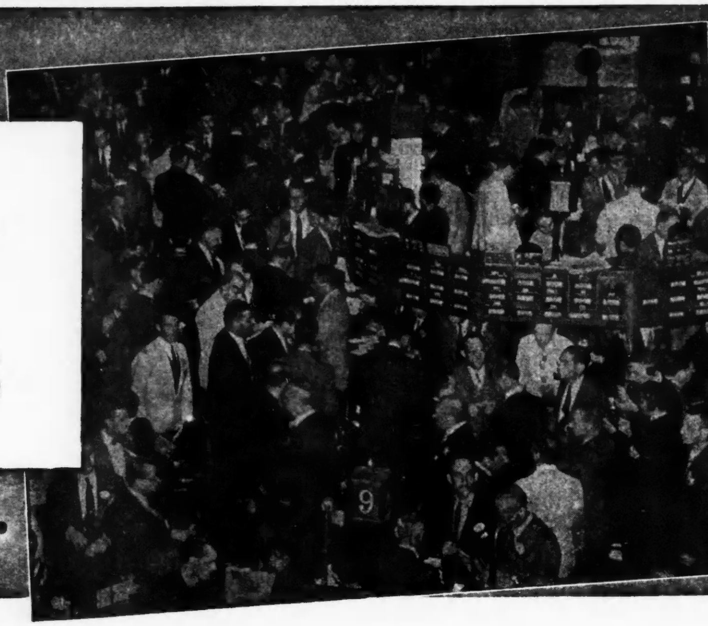
Statistical Data on Leading Bank Stocks

	Book Value Per Share 6/30/49	Book Value Per Share 12/31/48	Deposits—$ Mill. 6/30/49	Deposits—$ Mill. 12/31/48	Total Assets ($ Mill.) 6/30/49	% of Total Assets U. S. Govt. Securities	% of Total Assets Loans & Discounts	Net Per Share* 1948	Net Per Share* 1st Half 1949	Div. 1948	Recent Price	Div. Yield
Bank of Am. N.T. & S.A.	$29.04	$27.30 b	$5,408	$5,639	$5,845	26.8%	48.4%	$4.99 b	$3.00 a	$2.08 b	$40	5.2%
Bank of Manhattan	31.24	33.31	1,062	1,181	1,170	28.5	37.3	2.65	1.00	1.20	23	5.2
Bankers Trust	55.30	54.96	1,416	1,325	1,621	33.5	35.2	3.08	1.52	1.80	39	4.6
Central Hanover	125.33	124.33	1,350	1,401	1,495	39.0	28.2	6.86	3.00 a	4.00	88	4.5
Chase National	44.73	44.29	4,284	4,237	4,677	37.0	29.5	2.57	1.23 a	1.60	34	4.7
Chemical Bank & Trust	44.86	44.29	1,366	1,435	1,517	30.8	32.0	2.89	1.42	1.80	40	4.5
Continental Illinois	95.77	93.92	1,988	2,160	2,189	52.8	17.4	6.84	....	4.00	77	5.2
Corn Exchange, N. Y.	61.13	60.05	740	772	789	60.0	8.8	4.93	2.48 a	2.80	52	5.4
First National of Boston	44.52	43.86	1,419	1,371	1,563	34.5	29.5	3.94	1.66 a	2.25	47	4.8
First National of Chicago	203.41	191.91	2,005	2,078	2,274	38.5	31.2	12.23	....	8.00	180	4.4
First National of N. Y.	1,413.26	1,415.87	585	523	732	43.2	17.2	83.99	37.38 a	80.00	1180	6.8
Guaranty Trust	370.30	366.89	2,391	2,330	2,832	37.8	37.5	18.06	8.84	12.00	270	4.5
Irving Trust	23.48	23.29	1,075	1,113	1,206	37.5	31.8	1.36	.67	.95	15	6.3
Manufacturers Trust	60.38	62.82	2,234	2,223	2,407	41.0	24.0	4.76	2.33	2.40	48	5.0
National City of N. Y. (c)	47.51	46.99	4,579	4,643	4,945	34.8	27.5	3.37 c	1.53 c	1.60	39	4.1
New York Trust	110.92	109.83	593	642	671	34.7	36.3	6.50	3.09	4.00	82	4.9
Philadelphia National	86.17	85.30	643	657	709	40.4	18.6	6.72	....	5.00	93	5.4

*—Net operating earnings only.
a—Net indicated earnings.
b—Adjusted.
c—Excluding City Bank Farmers Trust.

FOR

PROFIT AND INCOME



The Rally

The rally from the June low in the Dow industrial average has amounted to about 7.4% up to this writing. That is less than half of the average summer rally over the 52 years 1897-1948, which amounted to 16.4%. Of course, the move might go somewhat further; but it is not a good bet, in this column's view, that there are more than a very few points left in it. In years when economic conditions were adverse, August tops have rarely exceeded July tops. It is a curious thing that in six out of the eight years 1941-1948, which includes the great 1942-1946 bull market, the highs for the July-August period were made within the first three weeks of July.

Pattern

No possible technical significance can attach to the fact that the industrial average has rallied above its February low of approximately 171. Previous highs are the test points on a rally, previous lows on a decline. The succession of highs for the industrials so far this year is 181.54 in January, 178.45 in March and 173.59 so far in July. The "pattern" for both industrials and rails is still one of descending tops and bottoms. As to whether this can be changed by a rise of both averages above their March highs, there is a heavy burden of proof on the bulls. The chances seem slim.

Test

In this column's view the most significant test ahead is not a technical one, since it does not necessarily relate to any particular level in the averages. It is the test of how the market stands up under something like the worst impact of business recession and lower earnings. Statistically, the worst might come in the forepart of 1950. Psychologically, it might possibly be seen in the fourth quarter of this year. Nobody can say whether a breaking of the June low would be followed by a slight decline or a large one. But if the market does not "fall out of bed" between now and late autumn, the basis for concluding that buying is in order will become a pretty strong one, assuming continuing economic readjustment.

New Highs

Stocks recently making new highs for the year include Abbott Laboratories, American Cyanamid, American Seating, Beneficial Industrial Loan, Colgate-Palmolive-Peet, Ex-Cell-O, Falstaff Brewing, Federated Department Stores, Industrial Rayon, Kroger Grocery, Merck, National Tea, Penick & Ford, J. C. Penney, Philip Morris, Procter & Gamble, Vick Chemical and Woolworth. Despite a few exceptions, new highs on this rally have been seen predominantly in good-quality stocks in relatively stable lines of business. It might be added that new highs have been made by an insignificant percentage of the general list on the Stock Exchange, and that citation of them here is as a matter of interest, not to be construed as buying recommendations. As to the latter, it would in any event make more sense to buy good stocks when they are down, rather than when they are making new highs.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Falstaff Brewing	June 30 quar.	$1.71	$1.07
General Bronze	June 30 quar.	.49	.34
Gleaner Harvester	June 30 quar.	3.19	2.89
Kroger Co.	24 weeks June 8	4.00	3.34
Loew's, Inc.	12 weeks June 9	.20	.16
Mathieson Chemical	June 30 quar.	1.53	1.24
Plough, Inc.	June 30 quar.	.41	.39
Standard Steel Spring	June 30 quar.	1.15	.70
Sunshine Biscuits	June 30 quar.	1.89	1.65
Truex-Traer Coal Co.	Year April 30	4.55	4.07

Selectivity

Groups which have advanced considerably more from their 1949 lows than has the general market include: brewers, utility holding companies, leather, gold mining, air transport, rayon, soaps and vegetable oils, dairy products, food chains, tobacco products, distillers, coppers, paper and finance companies. This is a curious mixture of strong, fair and weak industry situations. Some of the most laggard groups on the rally have been chemicals, operating utilities, aircraft, sugar, rail equipment, rails, meat packing, tires and rubber goods, and bank stocks. This list also runs the gamut, including a favored growth industry (chemicals) and one of the soundest fields for investment (operating utilities) along with presently such unpromising lines as railroads, sugar and meat packing. Group variations on a rally usually have rather limited prophetic significance. Some of those up most in percentage on this move will fare poorly on the next decline, leather being a likely candidate. Some up little from the June low — like utilities, for which it was a low only moderately under best 1949 levels—will get excellent investment support on future sell-offs.

Imponderables

On an average, price-earnings ratios are extremely low. Current yields, averaging around 7% on industrial stocks, are in a depression range; and are very close to what they were at the 1942 bear-market low when they are expressed as a ratio of high-grade bond yields. Since it is generally believed that the recession will be relatively moderate, taking no great toll of dividends, there must be some other considerations involved. They are the imponderables, the things you cannot measure in any statistics. They are the "Fair Deal," the thus far unbeatable alliance of politicians, labor unions and farm groups, and the grave basic uncertainties in international relations. The stock market will continue to alternate between moods of hope and fear; but it is this column's notion that our concept of a "normal" price-earnings ratio must be materially lower than it was before the war —and that of a "normal" yield materially higher—as long as the imponderables cited are unchanged.

Expectations

Great bull markets, like those of 1923-1929, 1932-1937 and 1942-1946 might have to be regarded as exceptions. Certainly it is hard to see how a minor depression and a presumably minor bear market can lay the basis for a rise at all comparable to any of the three cited, so long as the basic domestic political situation and the basic foreign situation are what they are. Without attempting a futile guess as to the future range of the market, suffice it to say that it should not be surprising if the next bull market tops out with average stock yields in the vicinity of 4½% to 5%, instead of around 3½% as at the 1946 top. Well, if huge profits are unlikely when the time comes to buy stocks, moderate profits are not to be sneered at. "Little" bull and bear markets are not at all unprecedented. There is some reason for thinking we might be in for a series of them. Certainly it should be tentatively allowed for in investment calculations.

Earnings

Total corporate earnings this year are bound to be down considerably from those of 1948; but, whatever the general trend in any given year, there are always a sizable number of exceptions to it. A partial list of industrial companies for which gains in 1949 earnings are reasonably probable would include Abbott Laboratories, Admiral Corp., American Airlines, American Home Products, Caterpillar Tractor, Corn Products, Ex-Cell-O, Falstaff Brewing, General Motors, Helme, Kroger, Owens-Illinois Glass and U. S. Tobacco. Most finance companies, electric utilities and natural gas companies will, of course, have higher earnings. That does not necessarily make these stocks good buys, but it is certainly a supporting factor which should make for better-than-average market behavior.

Unique

Air Reduction is a company of some importance, and in the past the stock was held in good regard. So far as this column knows, it is the only "old line" stock now selling under both its 1938 and 1942 bear-market lows, which were 40 and 29½, respectively. It is now around 23. The low for the year of 18⅝ was the lowest price since 1933, when it sold at 15¾. The 1932 low was 10¼. That sort of long-term performance reflects changes in the character of the business, and abandonment of the stock by big holders. Some come-back is quite possible, but the stock cannot be said to be cheap either on indicated earning power or yield of about 4.4%. Tedious checking through the list no doubt would show a few other stocks also selling under their 1942 lows, but mostly in the case of less prominent companies.

Abbott

Abbott Laboratories, one of the leading makers of ethical drugs, has been one of the outstanding "growth situations" of the last generation. As a result of three splits, the last one in April of this year, one 1929 share has now become 12 shares. Adjusted for these changes, the highest market price in 1929 was 4⅜. The stock currently sells at 41½. Assuming a $1.50 dividend rate, the current yield is less than 3.6%; but to the stockholder who bought at the top 1929 price and sat with it, the yield is over 34% a year. The appreciation from 1929 high is over 850%. Probably there is further

(*Please turn to page* 452)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1949	1948
Barker Bros	June 30 quar.	$ .41	$1.27
Cuneo Press	March 31 quar.	.17	.51
Hooker Electrochemical	May 31 quar.	.60	1.03
International Shoe	6 mos. May 31	1.32	2.04
Mullins Mfg.	6 mos. June 30	1.05	2.52
National Cash Register	June 30 quar.	1.53	1.98
Sunray Oil	June 30 quar.	.36	.69
Underwood Corp.	June 30 quar.	.82	2.03
U. S. Plywood	Year April 30	4.29	5.28
Wesson Oil & Snowdrift	May 28 quar.	.42	6.29

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Eastman Kodak Company

I own 50 shares of Eastman Kodak Company stock and would like to know your opinion of this issue as a long term holding. I am not interested in day to day market fluctuations.
W. C., San Francisco, Cal.

Eastman Kodak Company consolidated sales for the quarter ended March 31, 1949, amounted to $95,517,504 and net income to $11,728,892, equal to 89c per common share. This compares with first quarter 1948 sales of $92,011,298, and net income of $12,903,244 or $1.03 per common share.

Sales for the fiscal year ended December 31, 1948, totaled $435,395,626. This was an increase of about 24% over the preceding year. Net profit for 1948 was $55,494,425, or about 28% over 1947, and equivalent to $4.45 per common share.

Common stock cash dividends declared in 1948 totaled $1.60 a share. A one-for-twenty stock dividend also was declared for holders of common shares. Two dividend disbursements of 40c a share each have been declared in the first half of 1949.

Eastman Kodak is the largest manufacturer of cameras and related supplies. Operations have expanded greatly in recent years to include manufacture of acetate yarn and fibre, dyes and thermoplastic molding materials. A subsidiary, Tennessee Eastman Corporation, produces the latter products in a huge plant in Kingsport, Tennessee.

Through this important diversification, the growth potentials of the parent corporation have been greatly enhanced, although the long range expansion of its photographic business alone seems to have very large possibilities.

Eastman has plants in England, France, Canada and Australia and other foreign countries. Production of all films was ahead in 1948 over the previous year by a good margin. Much of this increase was in color film. The demand for amateur motion picture film was also substantial. Eastman's output of all cameras and projectors was considerably above the prior year. Shipments of other types of apparatus also increased and this included optical goods, accessories and miscellaneous equipment.

As the long term outlook for the company continues favorable, the shares of this "blue chip" merit retention.

Timken Detroit Axle

I understand that Timken Detroit Axle is one of the suppliers of products for Ford Motor Company and as the latter company was affected by a strike, would be interested in knowing how Timken's earnings were affected.
A. N., Champaign, Illinois

Timken Detroit Axle Company's fiscal year ended June 30, and as the final quarter sales were reduced by the Ford strike, earnings for the entire fiscal year are estimated at a little under $3.00 a share compared with $3.53 in the preceding fiscal year ended June 30, 1948.

Net income for the nine months ended March 31, 1949 was $4,643,673 or $2.14 a share compared with $6,174,565 or $2.84 per share in the similar period of the preceding fiscal year.

Timken operations were also adversely affected early in the present fiscal year when the C.I.O. United Auto Workers' strike closed its plants in Detroit, Oshkosh, Wisconsin, and Jackson, Michigan, during most of last July and part of August. This resulted in earnings of only 43c per share for the September 30 quarter compared with $1.10 in the preceding year.

Improvement occurred in the December quarter, but the declining production of trucks after January held sales and earnings under the 1948 fiscal year rate in the March quarter.

The company manufactures axles and brakes for commercial vehicles but not for passenger cars.

A favorable aspect since the beginning of this calendar year has been the improving business of the Timken Silent Automatic Division. Now furnishing gas and coal furnaces as well as its old line of oil burning heating plants, this division's sales are reported to have been very much better this year than in the first half of last year. The new Federal Housing Bill enhances the outlook for coming months.

Timken's new trailer-axle plant in Kenton, Ohio, has been in production since March 1, with Fruehauf Trailer Company its principal outlet.

Dividends in 1948 amounted to $2.00 per share and $1.00 was paid in the first half of 1949.

Hooker Electrochemical Company

Please furnish information as to products and industries served by Hooker Electrochemical Company, and recent earnings. *G. F., Tacoma, Washington*

Hooker Electrochemical Company, listed on the New York

Stock Exchange, is basically a maker of chlorine gas and caustic soda, produced by running an electric current through brine in a special type of cell, but the company has greatly diversified its business in recent years and expanded into many new products which are raw materials for production or processing of dyes, drugs, insecticides, food, lubricants, leather, metallurgical products, petroleum, pulp and paper, rayon and plastics, etc.

Earnings for the six months ended on May 31, 1949, showed a net income of $1,285,000 after taxes and other charges, equal to $1.32 a common share.

This income, realized on net sales of $11,028,600, compares with $1,560,000, or $1.80 a common share, earned on net sales of $12,133,200 in the same period of the previous year. For the quarter ended with last May, net income was $589,100, or 59c a common share, compared with $883,800 or $1.03 a share for the May quarter a year ago.

In the last quarter the company prepaid $600,000 on its unsecured notes payable and as of May 31, last, the balance outstanding was $2,400,000. The next installment there on of $600,000 will be due June 1, 1951.

For the fiscal year ended November 30, 1948, company earned $3.32 per common share on net sales of $23,675,590 and this compares with earnings of $2.45 per common share on net sales of $20,166,664 in 1947.

Balance sheet figures as of the end of fiscal year ended November 30, 1948, showed total assets of $27,377,276 which included cash and U.S. Government securities of $7,402,319. Current assets amounted to $13,195,331 and current liabilities to $1,820,867.

Capitalization consists of 50,000 shares of $4.25 preferred; 50,262 shares of $4.50 preferred and 804,204 shares of common stock outstanding.

During the past three years the capital expenditure program has totaled $10,413,861.

Quarterly dividend rate is 30c per common share.

Allied Mills

Please advise whether you think dividends of Allied Mills will be covered by earnings this year.
C. N., Buzzards Bay, Mass.

Allied Mills earned a net income of $3,110,671 after provision for Federal Income taxes, equal to $3.89 per share for the fiscal year ended June 30, 1948. Dividends last year amounted to $2.50 per share. For the twelve months ended March 31, 1949, the company reported $2.98 profit per share and for the fiscal year ended June 30, 1949, net profit is expected to cover dividend payments of $2.75 per share in this period. The company is a leading producer of commercial feed for poultry and livestock, and has benefited from the strong demand for these products. Tonnage sale of feed during the past year was about the same as in the preceding fiscal year, which was one of the best in the company's history. With poultry and hog population increasing, feed demand is expected to continue strong in the months ahead.

Allied Mills also processes soybeans, using the meal in its feeds and selling the oil. This division of the company's business has not held up as well as the feed business.

Allied has been making heavy expenditures for capital improvements, but the company is in a good position to continue liberal dividend payments. Over the past year, Allied spent about $5,000,000 on modernizing its feed plants.

The company's strong working capital position reflects the funds brought into the business in 1943 from the sale of Century Distilling Company at a profit of $12 million, after taxes. On June 30, 1948, cash and Government securities totaled $11 million, against current liabilities of $2,100,000. Total current assets were $22,300,000.

Carrier Corporation

Please advise on sales trend of Carrier Corporation and recent net income.
D. B., Elkhart, Indiana

Net profit of Carrier Corporation, a leading manufacturer of air-conditioning, refrigeration and industrial heating equipment, for the twelve months ended April 30, 1949, was $2,083,320 as compared with $2,349,697 in the preceding similar period. Completed sales were $51,198,786, the comparable figure for the twelve months ended April 30, 1948, was $55,050,376. New orders were booked in the amount of $48,634,081. The total for the preceding twelve months was $46,139,159.

On April 30, 1949, Carrier Corporation had a backlog of unfilled orders amounting to $20,174,759 as compared with $23,304,757 a year earlier.

The net profit figures for the twelve months ended April 30, 1949, do not reflect any inventory reserves other than those normally established. It is quite possible that additional reserves will have to be provided. Company reported current operating results are less satisfactory than a year ago, due largely to the general business decline plus the return of normal seasonal influences. However, new orders booked during the first six months of fiscal 1949 were only 9% below those of the corresponding period a year ago.

Dividends in the first half of 1949 amounted to 50c per common share, compared with 25c paid in the full year of 1948.

Eversharp, Inc.

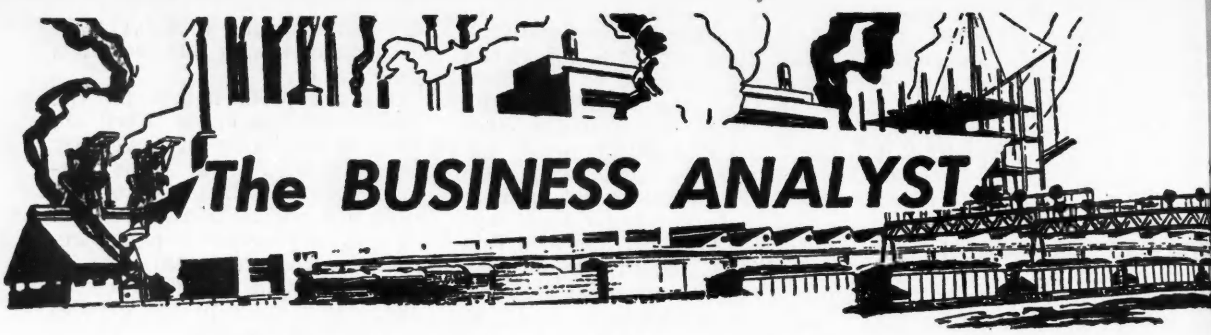
I understand that there has been a dispute among the top management of Eversharp, Inc. and therefore, would like to know recent earnings.
C. D., Syracuse, N. Y.

Net earnings of Eversharp for the first fiscal quarter ended May 31, 1949, were $354,456 as against $318,618 for the corresponding period last year. This net income, subject to year-end adjustments, is equivalent to 36c a share on 941,689 shares of common stock outstanding, after taxes and the payment of the regular 25c dividend on its preferred stock. In the same period a year ago, the company earned 32c a share on the same number of outstanding shares.

Net sales for the same quarter were $3,751,853 as compared to $3,926,711 for the same period of the preceding year. Despite moderately lower sales, the increase in net income over the previous year was accomplished in spite of the present difficulties due to management's dispute. The management is continuing its many economies and expects to have its new writing instruments line available shortly for the Fall season.

Eversharp's venture in the field of ball-point pens after the war was a costly experiment, but its later acquisition of Schick Injector Razor helped earnings considerably. Sales of this razor and its replacement blades have been eminently satisfactory and the outlook for the coming months appears favorable.

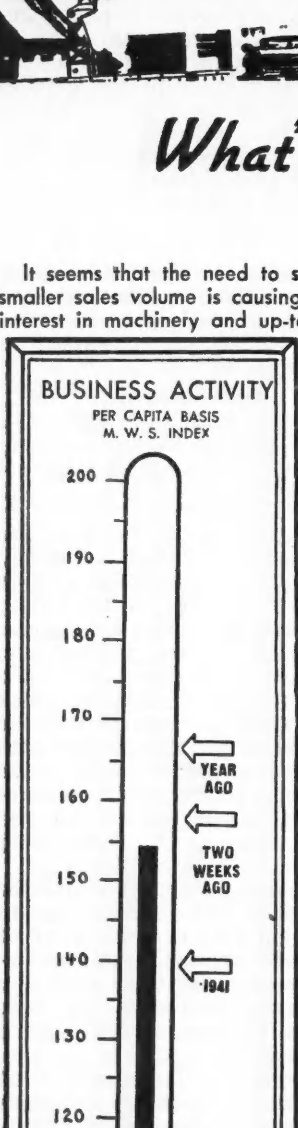
Last dividend was 2½% in stock on January 15, 1948.



What's Ahead for Business?

By E. K. A.

It seems that the need to sustain profits in the face of smaller sales volume is causing a noteworthy resurgence of interest in machinery and up-to-date equipment of various kinds. Some machine tool builders think, perhaps wishfully so, that this may bring about a fall upswing in their business substantial enough to pull them, and perhaps the industry generally, out of the recession. At any rate, they feel, current inquiries should blossom into orders after the summer doldrums, and a god-send it would be.



Whatever the actual potentialities of this movement, it is significant that reports of active inquiries have recently been coming from widely different sectors of industry, and they keep mounting. Purchasing agents reported that six out of ten widely used classes of industrial products are being ordered in larger volume, including non-ferrous metals, steel, power plant equipment, engineering construction materials, construction machinery and handling equipment. But lagging so far were chemicals, rubber, and electrical equipment.

Factors behind this upturn are said to include the following: Additional new industrial construction and commercial building; the planned expansion of operations of several large-sized government-owned plants; further expansion of automotive output; additional mechanization of coal and metal mines; installation of new power plants.

It is also reported that many heavy industries are getting ready to increase their operating rates thirty days ahead of schedule this summer. This would mean plant re-openings in August instead of September for some lines which have cut back extensively.

Capital Expenditures

All of which tends to support the latest SEC estimate of projected capital spending during the third quarter, the total of which is put at $4.6 billion compared with $4.8 billion during the second quarter this year and the third quarter last year. Should these estimates be borne out by actual expenditures, it would signify a substantial prop to business in the months ahead.

As to industry outlays for new machinery, this must be considered not as a part of an expansion program but as cost-saving replacements in a highly competitive market. The purpose of new orders naturally matters little as long as they create business and employment; but the trend is significant in that it works towards stabilization of operations and profits, and towards lower prices.

Inventory Trends

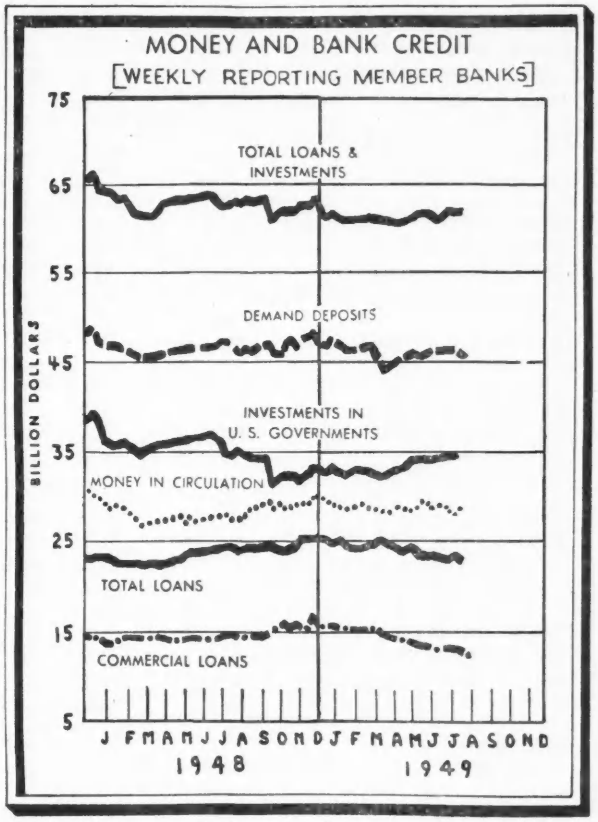
Inventory liquidation continues apace, as witness the announced reduction of total business stocks in May by some $1.2 billion. There is every evidence that heavy liquidation is still going on at all levels of business, but we are just that much nearer to a turn. Cutting down on stocks has been one of the main causes of the business slump; a revival of ordering will signify the beginning of its end. Much of it depends not only on relationships between inventories and sales but on prices. Once a buyer is convinced that prices have firmly settled down, he has nothing more to wait for pricewise. Hence steadier price tendencies currently evident assume heightened significance. In many industries price declines have bumped against rigid wage costs and artificially pegged raw materials prices. Should the current "fact finding" in steel result in higher wages for steel workers, such price-steadying tendencies would be enhanced particularly in the durable goods industries.

Nothing in the present picture points to an early turnaround in inventory policies but observers admit that it could come fast if the cutting down of stocks continues at its recent pace. In some industries, consumption has been exceeding production for some time and this obviously cannot go on very long. The overall picture, though, is quite spotty. In our estimation, present inventory trends are likely to continue through the third quarter; that is, it will take that long before resumption of more normal buying is likely to become more general.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—In the fortnight ended July 15, our common stock index advanced to the highest level since May 27, with volume largest since the year's low point was touched on June 17. Among our 46 sub-group indexes, only one registered a new low; while three (as indicated in the tabulation appearing on the second page following) made new highs since 1947. In four weeks of uninterrupted advance, the market has recovered 59% of its previous five weeks' decline. Common stocks, on an average are now down only 5% from the first of the year, while 18 of the 46 sub-groups are actually up on the year. Gold mining shares turned reactionary on Britain's refusal to devalue the pound and on fears that the President's reflation program might start another inflation spiral. Corporate bonds and preferred stocks reflected continuing strength in U. S. Governments. Even the restricted Victory 2½s rose nearly a point as non-bank investors bought in anticipation of declining yields under the Government's cheap money policy. Demand for convertible preferreds has broadened as a straddle between common stocks and fixed-income securities. Cheap money may in due time generate a new wave of refunding operations. Such prospect tends to impose a ceiling upon callable issues. Business circles in Finland say that the nation's recent 17.7% devaluation of the markka is not enough; but estimate that it will raise living costs there at least 4½%. Since the demise of Regulation W, at least one bank here has lengthened time payment periods on automobile instalment purchases, and reduced its finance charge. Bankers' acceptance rates have been lowered by ⅛ to ¼ point, according to length of maturity. The Treasury may postpone resumption of deficit financing until after receipt of the President's revised budget estimates, which are expected around mid-August. Sales of series E savings bonds in the first half of 1949 topped the like period last year by 2½%, while redemptions shrank 10½%. Sales of annuities last year totaled $900 million—twice the 1943 amount, and 82 times sales in 1920. In the fortnight ended July 6, commercial loans continued to contract, while bank holdings of U. S. Government securities were still expanding. Bank deposits, demand plus time, are now slightly above a year ago.



TRADE—Department store sales for the week ended July 9 sank to 8% below last year; but the cumulative decline for the year to date still amounts to only 4%. Our excess of exports over imports in May declined to $535 million; but was only $8 million smaller than a year earlier. Britain cut her imports from dollar areas by 25%, or $33 million monthly. This will not be felt here until existing commitments run out in the fall. Her colonies will do likewise. Canada will be especially hard hit by these restraints; since exports, with which nations normally pay for their imports, account for 23% of her national income, compared with 15% for Britain and only 5% for the U. S.

INDUSTRY—Vacations and the coal miners' 3-day work-week caused a sharp dip of 2.2% in business activity during the fortnight ended July 9, to a level 6.3% below last year, but a rebound of at least seasonal proportions would not be surprising once the period of vacations and labor disputes is ended. Unemployment in early June was 1.59 million above last year; while the number of people actually at work in non-agricultural pursuits was off 1.64 million, or 3.3%. With most of the major heavy goods industries still operating at capacity, non-ferrous metal buyers have had to re-enter the market and pay higher prices. Much of the reported decline in inventories, since their November peak, can be attributed to lower prices rather than reduction in actual physical quantity.

COMMODITIES—During the fortnight ended July 16, there was the usual divergence in trends between futures and cash prices; but grains rose in both markets under leadership of a sharp spurt in rye, which may be in short supply this year. Aided by a rise in copper and lead, this Publication's index of raw materials spot prices staged a 2% rally.

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The M. W. S. index of overall **Business Activity** for June, at 181.4% of the 1935-9 average, was 1.6 point under May and 4.9% below June of last year. The second quarter averaged 182.8—5.2 points below the first quarter, and 2.9% under the second quarter of 1948. Average for the first half was 185.4—3.3 points under the fourth quarter; but only 1.5% below the first quarter of last year.

* * *

This suggests that corporate **Earnings** reports for the first half, by and large, will not compare so unfavorably with last year as generally expected; though results for the second quarter, with many exceptions, probably made a somewhat poorer showing.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	June	1.31	1.18	1.11	1.55
Cumulative from mid-1940	June	383.4	382.0	369.2	13.8
FEDERAL GROSS DEBT—$b	July 6	252.8	252.5	252.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 6	45.8	46.1	46.2	26.1
Currency in Circulation	July 13	27.5	27.7	28.0	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	July 6	8.77	8.73	8.62	4.26
93 Other Centers—$b	July 6	11.98	12.08	12.24	7.60
PERSONAL INCOMES—$b (cd3)	Apr.	216	217	211	102
Salaries and Wages	Apr.	138	138	131	66
Proprietors' Incomes	Apr.	48	49	51	23
Interest and Dividends	Apr.	18	18	17	10
Transfer Payments	Apr.	12	12	12	3
(INCOME FROM AGRICULTURE)	Apr.	20	21	23	10
CIVILIAN EMPLOYMENT—m (cb)	June	59.6	58.7	61.3	51.8
Agricultural Employment (cb)	June	9.7	9.0	9.4	8.8
Employees, Manufacturing (lb)	May	15.0	15.3	15.9	13.8
Employees, Government (lb)	May	5.8	5.8	5.6	4.6
UNEMPLOYMENT—m (cb)	June	3.8	3.3	2.2	3.8
FACTORY EMPLOYMENT (1b4)	May	144	148	155	147
Durable Goods	May	166	171	184	175
Non-Durable Goods	May	127	130	133	123
FACTORY PAYROLLS (1b4)	Apr.	337	350	347	198
FACTORY HOURS & WAGES (1b)					
Weekly Hours	May	38.6	38.3	39.9	40.3
Hourly Wage (cents)	May	137.5	137.6	130.1	78.1
Weekly Wage ($)	May	53.08	52.70	51.86	32.79
PRICES—Wholesale (1b2)	June 12	154.2	152.7	169.2	92.5
Retail (cdlb)	Apr.	189.2	189.4	190.8	116.2
COST OF LIVING (1b3)	May	169.2	169.7	170.5	110.2
Food	May	202.4	202.8	210.9	113.1
Clothing	May	191.3	192.5	197.5	113.8
Rent	May	120.4	120.3	116.5	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	May	10.81	11.11	10.52	4.72
Durable Goods	May	3.40	3.33	3.14	1.14
Non-Durable Goods	May	7.41	7.78	7.38	3.58
Dep't Store Sales (mrb)	May	0.82	0.84	0.82	0.49
Retail Sales Credit, End Mo. (rb2)	May	7.96	7.78	6.84	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Apr.	196	215	252	181
Durable Goods	Apr.	209	243	292	221
Non-Durable Goods	Apr.	187	199	228	157
Shipments (cd2)—Total	Apr.	315	328	324	187
Durable Goods	Apr.	368	383	353	227
Non-Durable Goods	Apr.	284	296	307	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Apr.	53.5	54.7	51.1	28.6
Manufacturers'	Apr.	31.4	31.8	29.2	16.4
Wholesalers'	Apr.	8.1	8.4	7.8	4.1
Retailers'	Apr.	14.0	14.5	14.1	8.1
Dept. Store Stocks (mrb)	Apr.	2.2	2.2	2.4	1.4
BUSINESS ACTIVITY—1—pc	July 9	154.2	157.2	166.9	141.8
(M. W. S.)—1—np	July 9	177.3	180.7	189.0	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 445)

On a **Per Capita Basis,** our business index for June, at 157.8% of the 1935-9 average, was 1.4 points under May, and 11.4 points below June of last year. The second quarter averaged 159.2%, compared with 164.4% in the first quarter, and 167.3% for the second quarter of 1948. The first half averaged 161.8% against 166.1% for the second half and 167.4% in the first half of 1948.

* * *

The chief reasons for believing that an autumn **Upturn** in overall **Business** is probable (as mentioned on the preceding page) are the continuing high level of personal incomes with slowly rising purchasing power, accompanied by record output of electric power, construction expenditures, automobile sales, demand for farm implements, and business expenditures for plant and equipment.

* * *

These conditions create such a large basic demand for **Metals** that no buyers' strike by mere middlemen can long hold out against the tide. In fact there has already been such improvement in demand for **Non-Ferrous Metals** that custom smelters have been able to raise prices a little.

* * *

Recently even **Steel** ordering perked up a bit; but it remains to be seen whether this heartening trend will continue now that the strike danger in this industry has been postponed for two months.

* * *

Aluminum production in May was the greatest since Aug., 1944. Larger use of the metal in the building industry, for electric conductors, aluminum foil in the packaging field and in the home, have created such an unprecedented peacetime demand that an expected large surplus has been turned into a severe shortage.

* * *

Up to the end of May, no startling progress had been made in reducing **Business Inventories,** except in special instances. According to the Commerce Department, they were still 2% higher than a year earlier, though down 5% from the November 30 peak in book value. Meanwhile wholesale prices have also declined 5%; so that reduction in the actual physical quantity of inventories could not have exceeded 3%.

* * *

Strikes in major industries which might result from the summer's labor demands would do the economy no lasting harm,

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	May	174	179	192	174
Mining	May	146	148	162	133
Durable Goods Mfr.	May	201	213	221	220
Non-Durable Goods Mfr.	May	161	162	178	151
CARLOADINGS—t—Total	July 9	595	644	755	833
Manufactures & Miscellaneous	July 9	260	328	315	379
Mdse. L. C. L.	July 9	72	91	84	156
Grain	July 9	70	70	63	43
ELEC. POWER Output (Kw.H.)m	July 9	4,982	5,410	4,760	3,267
SOFT COAL, Prod. (st) m	July 9	4.9	1.3	9.8	10.8
Cumulative from Jan. 1	July 9	261	256	298	446
Stocks, End Mo.	May	72.7	65.2	47.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	July 9	4.7	4.8	5.5	4.1
Gasoline Stocks	July 9	114	114	102	86
Fuel Oil Stocks	July 9	67	66	62	94
Heating Oil Stocks	July 9	67	65	51	55
LUMBER, Prod. (bd. ft.) m	July 9	320	536	456	632
Stocks, End Mo. (bd. ft.) b	Apr.	7.5	7.3	5.5	12.6
STEEL INGOT PROD. (st.) m	June	6.50	7.59	7.27	6.96
Cumulative from Jan. 1	June	45.9	39.4	43.1	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 14	190	138	126	94
Cumulative from Jan. 1	July 14	4,289	4,099	3,666	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 9	105	162	124	165
Cigarettes, Domestic Sales—b	May	30.9	27.3	29.1	17.1
Footwear Production (pairs)m	Apr.	37.6	44.8	39.4	34.8
Motor Vehicles, Factory Sales—t	May	481	543	339	352
Natural Rubber Consumption (lt)t	May	45.9	47.9	52.0	54.3
Do., Synthetic	May	35.4	36.5	35.3	0.5

PRESENT POSITION AND OUTLOOK

unless they succeeded in forcing a fourth round of wage increases. They would afford an opportunity for plant repairs, and facilitate reduction of inventories; so that production could be resumed at a higher rate than before the shut-downs.

* * *

Thus far consumers and private business interests have done a creditable job of cushioning the recession, and without government meddling. But their efforts to reduce prices and costs, or at least prevent them from rising, are meeting stiff opposition from the Administration, which hopes to bring back **Inflation,** and thereby build up a plausible excuse for demanding more Government controls over business.

* * *

The President has come out openly for deficit spending and wage advances at this time, both of which are potentially inflationary, despite efforts to divert attention from the unpleasant consequences through the bureaucratic subterfuge styled **"Reflation."** Should our exports and expenditures for automobiles, plant and equipment and new construction fall off importantly in the months ahead, no legislatively obtainable amount of government pump priming could prevent an extension of the recession.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

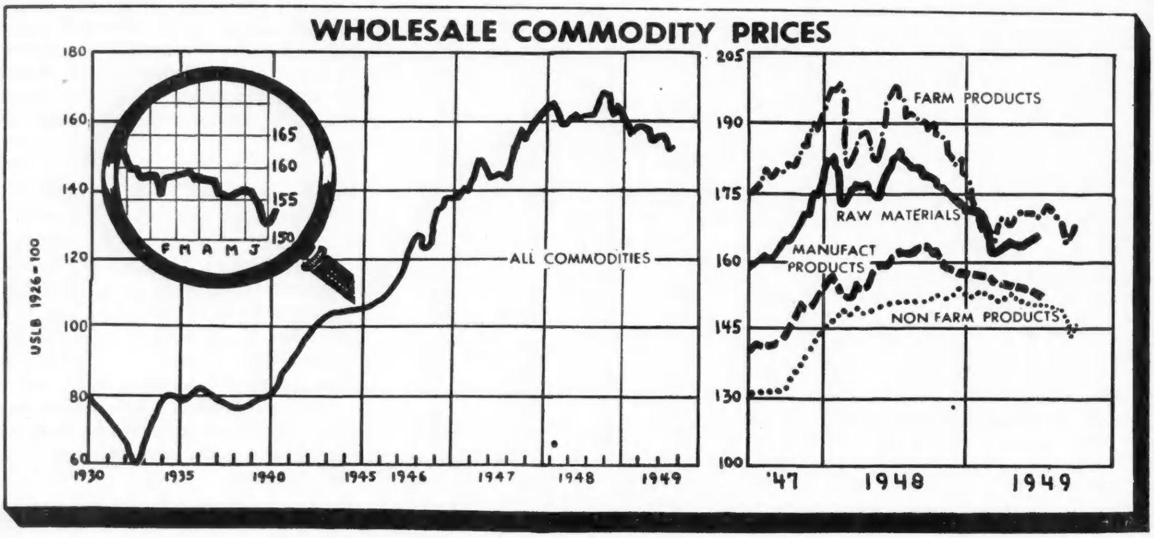
No. of Issues (1925 Close—100)	1949 Indexes High	Low	July 8	July 15
320 COMBINED AVERAGE	127.6	108.0	113.1	115.2
4 Agricultural Implements	200.0	162.1	175.0	179.6
10 Aircraft (1927 Cl.—100)	175.3	138.2	141.9	141.0
6 Air Lines (1934 Cl.—100)	435.6	366.1	406.7	426.8
6 Amusement	93.4	75.7	84.6	83.6
12 Automobile Accessories	188.9	145.2	155.0	160.8
12 Automobiles	29.7	21.3	23.1	23.5
3 Baking (1926 Cl.—100)	19.7	18.1	18.3	18.3
3 Business Machines	237.4	209.0	218.6	226.2
2 Bus Lines (1926 Cl.—100)	133.5	118.3	127.6	129.1
5 Chemicals	235.2	212.7	220.4	224.2
3 Coal Mining	19.2	11.2	11.7	12.3
4 Communication	39.4	31.8	33.6	34.1
13 Construction	58.5	47.4	50.1	51.4
7 Containers	284.1	240.7	252.6	253.1
9 Copper & Brass	95.8	67.4	74.6	74.5
2 Dairy Products	59.1	56.8	58.6	58.5
5 Department Stores	54.9	49.2	52.9	53.8
6 Drugs & Toilet Articles	154.3	141.6	151.6	152.8
2 Finance Companies	278.4	246.1	263.0	268.0
7 Food Brands	154.4	146.0	153.1	153.3
2 Food Stores	77.4	58.5	76.6	77.4B
3 Furniture	70.7	54.7	57.4	58.9
3 Gold Mining	733.9	566.3	690.7	666.6

(Nov. 14, 1936, Cl.—100)	High	Low	July 8	July 15
100 HIGH PRICED STOCKS	80.68	70.82	73.85	75.05
100 LOW PRICED STOCKS	146.36	119.71	125.95	128.66
6 Investment Trusts	60.3	53.9	56.6	57.4
3 Liquor (1927 Cl.—100)	688.2	602.9	659.8	674.0
10 Machinery	136.9	115.9	121.2	123.4
3 Mail Order	104.9	87.1	95.4	95.8
3 Meat Packing	79.9	63.3	63.3e	64.8
12 Metals, Miscellaneous	158.1	122.0	131.0	132.0
4 Paper	37.3	27.9	29.9	30.7
29 Petroleum	245.7	207.1	219.6	221.7
21 Public Utilities	116.9	102.4	112.5	115.4
6 Radio (1927 Cl.—100)	26.7	13.6	13.8	14.1
9 Railroad Equipment	50.0	36.5	39.0	40.0
24 Railroads	23.4	17.5	17.7	18.4
3 Realty	23.9	21.4	23.7	23.5
3 Shipbuilding	144.4	120.0	123.2	125.5
3 Soft Drinks	367.4	298.2	350.8	350.1
14 Steel & Iron	106.2	77.0	80.0	84.2
3 Sugar	48.5	39.8	41.8	41.7
2 Sulphur	273.5	233.8	267.9	268.4
5 Textiles	132.5	100.9	114.9	116.2
3 Tires & Rubber	31.6	26.6	27.6	28.3
6 Tobacco	77.6	67.1	72.4	77.6B
2 Variety Stores	335.5	308.3	332.6	335.5B
17 Unclassified (1948 Cl.—100)	105.3	93.2	97.7	99.6

B—New HIGH since 1947. e—New LOW since 1944.

Trend of Commodities

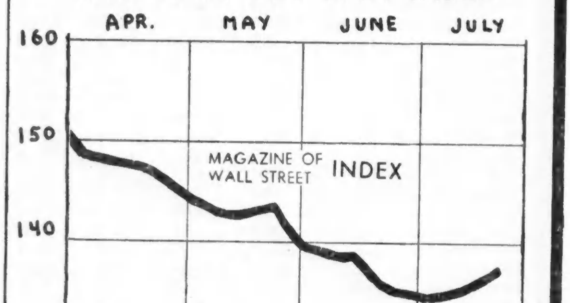
During the fortnight ended July 16, grain prices, spot and futures, extended their advance under leadership of an exceptionally sharp rise in rye, which may be in short supply this year. Unfavorable weather and plant disease caused a deterioration during June of 148 million bushels in the prospective wheat crop, which now promises to total only 1,188 million bushels. Even so, it would be the third largest on record, so the Government will soon ask farmers to reduce plantings of next year's crops by 17%; but the idea of fixing marketing quotas has been abandoned. The Agriculture Department has decided to use 12 of the Maritime Commission's "moth ball" fleet for emergency storage of 3.2 million bushels of wheat, just as a test experiment. Cotton acres under cultivation on July 1 are placed at 26,380,000—14.2% above last year, and largest since 1937. Hog prices at Chicago have rallied to $23 per cwt.—$5 above May 1, but down $7 from last August. The Government, predicting the third largest pig crop this year, opines that prices will drop sharply by November. Support prices have been set at an average of $16.75 per cwt., at Chicago, rising from a low of $16.25 in May, the usual period of heavy marketings, to a high of $18.50 in Sept., when marketings are normally small. These support prices are $1 above the previous scale. The Government is still pressing Congress to authorize a try-out of the Brannan plan on hogs, under which the former would be paid a "fair" price while permitting prices to consumers to fall. A trial run on hogs alone would so reduce the demand for other high-price supported meats that the Government couldn't prevent their prices from collapsing.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

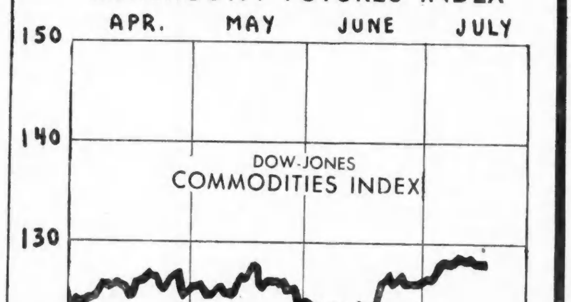
	Date July 18	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	234.8	229.0	231.0	244.3	287.1	323.0	156.9
11 Imported Commodities	241.4	235.4	236.2	249.8	268.3	290.9	157.3
17 Domestic Commodities	230.6	224.9	227.7	240.8	300.0	345.7	156.6
7 Domestic Agriculture	300.5	292.9	294.4	287.5	304.3	382.1	163.9
12 Foodstuffs	287.7	280.6	281.1	279.0	309.0	401.7	169.2
16 Raw Industrials	212.9	206.7	209.7	234.5	279.2	275.6	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1949	1948	1947	1945	1941	1939	1938	1937
High	161.5	162.2	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.9	149.2	126.4	93.6	74.3	61.6	57,5	64.7



Average 1924-26 equals 100

	1949	1948	1947	1945	1941	1939	1938	1937
High	139.28	168.63	175.65	106.41	84.60	64.67	54.95	82.44
Low	122.45	139.83	117.14	93.90	55.45	46.59	45.03	52.03

Diverse Trends in Rails

(*Continued from page* 434)

and taking into consideration the prediction of thirteen shippers' advisory boards that freight loadings in the third quarter will be 7.4% less than in 1948; and further, that the final half of the year will show the worst comparisons, one may reach the following conclusions:

(1) That the combined 1949 gross of all Class I roads will be approximately $8,600,000,000. This compares with $9,671,600,000 actual in 1948.

(2) That net income, on a combined basis, will approximate $470,000,000. This would compare with $711,000,000 in 1948 and would represent a satisfactory showing, war years omitted. Net income of Class I roads was $490,400,000 in 1947, $287,100,000 in 1946 and $450,400,000 in 1945.

Of course, the market will soon be looking ahead in an attempt to discount 1950 results. It will want to determine, if possible, the vulnerability of dividends.

How far can profits decline before this point of vulnerability will be reached? No exact answer to this can be given because situations, as to working capital, debt requirements and other factors vary in marked degree among the different systems.

However, on an industry-wide scale, net income as estimated for 1949, should be sufficient to support dividends at the present indicated rates, with a margin of safety on the downside for 1949 of probably between 10% and 15% from this projected level.

This allows for a status-quo in both wage costs and freight rates next year, but assumes that the adjustments indicated for 1949 will be effective, including a freight rate increase of not less than 5%.

Considering the outlook for rails as outlined in the foregoing, what policy should the individual investor follow? First and foremost, he should see that his account is well-balanced, with only a relatively small proportion of his funds in rails, and then only in those where a good margin of safety is indicated.

Under such circumstances, his choice, on a semi-investment basis, would narrow down to Santa Fe, Great Northern, Louisville & Nashville, Norfolk & Western, Reading, Union Pacific and Texas & Pacific.

If he were speculatively inclined, the yields offered by such stocks as Atlantic Coast Line, Southern Pacific, Southern Railway, Kansas City Southern and Canadian Pacific would have a distinct appeal since there would be at least an even chance that their dividends would be maintained at present rates in 1950, even with an industry trend as outlined in this discussion.

Generally speaking, it has become more and more obvious over the years, and especially in the last decade, that the railroad industry, as a regulated business, subject to rigid controls and without the flexibility necessary to adjust operations to higher expenses, must have a continued huge traffic volume to support dividends and retain the confidence of the investor. Once this volume is lost, trouble will begin, even though there has been a steady and marked reduction of prior charges on outstanding fixed debt. It is for this reason that the average balanced investment portfolio of common stocks, would do well to restrict rail holdings to a rather small percentage.

Reflation With Easy Money

(*Continued from page* 423)

much further without some such effect. A certain amount of switching from bonds into stocks usually occurs when the yield spread grows, particularly among investors who are not in very high income tax brackets. Such a tendency could become more pronounced in the future though it is difficult to appraise its potential scope under today's conditions of depressed stock market psychology.

Low interest rates and a strong bond market might also facilitate corporate financing by enabling corporations to raise capital needs more cheaply and with less difficulty. Indicative of such possibilities is the fact that the latest FRB step not only boomed Government securities but helped move a lot of high-grade corporate bonds which investment bankers have been trying to sell for some time. Anticipation of a further narrowing of bond yields was the moving factor. Conceivably, also, refunding operations might again become attractive as a means of cutting fixed charges. Such opportunities largely disappeared when the trend of interest rates turned upward with the inauguration of an anti-inflation credit policy a few years ago. However, as far as demand for new funds is concerned, business and earnings prospects rather than the cost of money will likely remain the chief consideration for some time but this may change once recovery signs appear.

Ultimate Stability

It would be erroneous to assume that the latest upsurge in bond prices may portend continued outstanding strength. Before long, the Treasury may offer new longer term issues for refunding or new money purposes and if so, buying of outstanding issues will become less eager with the market becoming more stable. In other words, mounting supply will take care of demand even though banks should face sustained pressure to invest in the absence of an early revival of business lending. This pressure is reflected in banking statistics for the week ended July 6 which included the first few days when the new open market policy was effective. Though a major aim of the new policy is to nudge banks away from government securities and into more business loans, bank holdings of the former went up $557 million and outstanding business loans declined $172 million — the 25th consecutive decrease—for a total drop of $2.627 million since December 22.

This brings up the question: Can efforts at reflation by easy money be effective? The answer is yes, but it will take time. No one of course expected the new policy to bring sensational results in the first week, nor is it likely to really increase the flow of bank loans to business in the next few months. It will require a certain restoration of confidence in the business outlook to revive the *demand* for business loans and it will be some time before the banks give up trying to get more bonds for earnings and turn to pushing for loans. In time, however, the new easy money policy should serve to provide a bottom for the recession and lay the groundwork for the next business upturn.

Reflation moves in the monetary field, and especially deficit financing, are basically inflationary and their effect usually first begins to work beneath the sur-

face but it could become visible in coming months, such as in the form of rising bank investments without the aid of Federal Reserve sales of securities. This will be one of the clues to a change in underlying conditions. The authorities have at their disposal further means of expediting their anti-deflation aims. They can order a cut in statutory reserve requirements; and they can lower the discount rate, something that will occur automatically if the one-year money rate is pulled down.

Thus while a business revival is not guaranteed immediately by the latest money and credit measures, easy money—if it results in stepping up of bank loans—will help cushion the downturn and bring nearer business revival. It also will, and this is probably an important factor with the monetary authorities, facilitate the Treasury's deficit financing, thus serve a significant dual purpose.

Mid-Year Outlook for Bank Stocks

(*Continued from page* 439)

strong banking institution, its large reserves and favorable earnings record lend considerable investment appeal to its shares.

Chase National Bank's experience in the first half year provides a good example of success in maintaining stable earning power, despite declining loans. At the start of 1949, loans of $1.48 billion were 12% higher than a year earlier, and three months later they rose to $1.52 billion. As of June 30, though, total loans dropped to $1.38 billion, a decline of about $140 million, while deposits rose to $4.28 billion from the March 31 level of $4 billion. The bank's holdings of government securities at mid-year amounted to approximately $1.72 billion compared with $1.33 billion at the end of the March quarter. This enlargement of portfolio holdings, aided by security profits of 8 cents per share, partially accounted for net earnings of $1.23 per share in the first half year. In the same 1948 period net was reported as $1.06 per share, after allowing for a 21 cents per share loss on securities sold. This relatively small variation, considering the huge funds involved and sizable shifts in loans and investments, trends in interest rates and broadly diversified service charges, illustrates how dependable are the earnings of a large and well managed bank. Shareholders in the Chase Bank have received dividends without a break for the past 70 years. The current conservative quarterly dividend rate of 40 cents per share appears unlikely to change during 1949.

Four years from now will probably establish the century mark for uninterrupted dividends by Central Hanover Bank & Trust Company. In the course of many decades, total assets have steadily expanded and were reported as $1.49 billion on June 30. On that date, capital of $21 million compared with surplus and undivided profits of about $110 million. Loans and bills purchased aggregated $422.8 million at the end of the first half year, off almost $55 million from the March level. Total deposits rose by $25 million in the June quarter to $1.35 billion. To help offset lower earnings from loans and to put increased deposits to work, the bank enlarged its holdings of Government securities in the last three months by about $90 million to a total of $581.3 million or 39% of total assets. Net indicated earnings of $3 per share in the first half year were at a slightly lower annual rate than the $6.86 reported for full 1948 but covered quarterly dividends of $1 per share by a margin that should assure stability in near term periods.

In summary, there seems evidence that bank earnings may recede moderately in the second half year, due to a slight downtrend in money rates and reduced yields on investments, but this should constitute little threat to well maintained dividends. Reference to our table will disclose yields ranging from 4.1% to 6.8% currently obtainable on shares of some of the strongest banks in the country. Hence the most conservative type of investors may find interest in this medium if their aim is steady and satisfactory income for an indeterminant period.

Investment Audit of F. W. Woolworth

(*Continued from page* 431)

if dividends could not be liberalized somewhat, the response that this might require some outside financing for modernization promptly squelched the questioner. To be sure, Woolworth is obligated for some $5 million purchase money mortgages, a trivial amount in relation to working capital of $118 million, but as of December 31 the company's balance sheet was free of bank debt or borrowings other than those mentioned.

Huge Buying Operations

By far the most important element in the sound structure of Woolworth is its immense purchasing department. Here the door is wide open to manufacturers, large or small and from any spot on the globe, and many of these appear by invitation as a result of constant search by the company for new and interesting products that may prove rapid sellers. It would be difficult to estimate the huge number of supply sources available to Woolworth through its open door policies backed by aggressive research. While purchases are made on a "trial and error" basis, each new item being limited in amount to test its sales appeal in a few selected stores, initial orders none the less may represent as many as 15,000 units.

If this merchandise moves sufficiently fast, replacement orders are increased to spread over additional outlets, until volume may reach exceedingly large proportions for a single unit. Many a small manufacturer in some remote location has made a fortune by supplying items with proven appeal to Woolworth customers over an extended period, whether in the form of mousetraps, infant clothing, table wares or other desirable items with a limited price range. Similarly, many a large manufacturer has found a very substantial outlet in Woolworth for special small items capable of mass production, thus bolstering regular line activities in no small degree.

The legion of specialists employed by Woolworth in the purchasing department is trained to appraise at a glance the sales potentials of the many items offered them and provided terms are satisfactory, the process of selection entails no great delays. The bulk of Woolworth offerings need only obvious eye appeal and a price tag to attract sales, but the store buyers are adroit in predetermining quality, color preferences and attractive packaging. Now that the company has expanded its price

range, though, increasing purchases are made of goods that require special training of the sales force, for Woolworth merchandising policies have shifted to a basis of genuine competition rather than mere reliance on low price. Some of the higher priced goods need skilled sales effort to promote their disposal.

The basic factors accounting for the exceptional sales and earnings record of Woolworth over more than half a century through panics, wars and depression periods are several. Price resistance of customers is at all times minimized by the company's traditional emphasis on low priced goods. A penny here and a few cents there makes little difference in times of broad shifts in price trends for more expensive merchandise. And as motives of economy are by no means restricted to customers of limited income, there is practically no horizon for the class of trade the company can attract. Rich and poor alike find satisfaction in inspecting the constantly changing array of new items that greet the eye in a Woolworth store and the process is made simple by the widespread location of increasingly attractive outlets.

Depression Resistant

Woolworth, as any other merchandiser, experiences volume gains commensurate with trends in the national income and population growth, but when lean times appear, the promise it offers for ultra-economical purchases tends to stabilize its activities in outstanding manner. While it has always been a policy to pass on to customers as rapidly as possible any savings derived from declining merchandise costs, it has often happened that the company's profit margins have held well in recessive periods. In the desolate year of 1931, for example, Woolworth's earnings per share were $4.24, a mark not exceeded until the two recent boom years of 1947-48, and then only by a moderate margin. A non-recurring profit equal to 90 cents per share in 1931, though, partially accounted for the good showing in that year. In 1932, when volume of $249.8 million compared with $303 million in 1929, earnings of $2.27 a share were reported and since 1912, the company has never failed to earn less than $2,26 per share in any year. All of which attests to extraordinary operating efficiency.

A second factor is that regardless of expanding volume, the company's ability to control costs and prices sufficiently to keep operating margins amazingly stable could hardly be matched by any other merchandiser. Reference to the appended statistical table will show that volume has risen in every year for the past decade, almost doubling from $318.8 million in 1939 to a record high of $623.9 million in 1948. Unsettled conditions abroad held operating margins close to 8% in 1939-40, but in the following eight years it held near or above 10%. Considering the vast assortment and value of goods involved, only an exceptionally rapid turnover and excellent merchandising policies could produce such results.

Profit Margins

In an even more striking manner, Woolworth's net profits in relation to sales seem to remain closely attuned. The impact of excess profits taxes in war years of course caused some distortion in the record for the last ten years, but allowing for this, the narrow spread between net profit margins of 7%, 7.1% and 7.2% in the last three years is worthy of note. It will be observed that both operating and net profit margins have slightly but consistently narrowed since the end of the war, mainly attributable to an uptrend in wage costs. Though Woolworth sales have risen about 100% in the course of a decade, wages paid to store employees have advanced about 145% in the same interval. As a partial offset, the company has introduced operating economies that have held the rise in general store operating expenses to around 94%.

In appraising operating potentials for the current year, the management has admitted facing some serious problems. Since January the company buyers have obtained a great number of price reductions that in line with long established policies are promptly passed along to customers. This means a natural downtrend in dollar volume unless success is achieved in increasing unit sales. In the first five months of 1949, Woolworth volume of $44.5 million was only 1.1% lower than in the same 1948 period, but the dip in May alone was 5.5%. The extent of the downtrend thus remains uncertain in considering full year potentials. It seems fairly certain that operating margins may be somewhat pinched by heavy overhead if the recent rate of volume decline continues long.

Aside from this factor, inventories of $84.6 million at the end of 1948 (including goods in transit) were of peak proportions though conservative in relation to last year's volume. In valuing inventories, moreover, Woolworth uses cost on basis of "first in first out," a factor that might increase inventory losses in a declining price period. But this factor may not prove overly significant in view of rapid turnover and the broadened scope of merchandise now carried in the company's modernized stores. The company carries so many different items on which it is encouraging price reductions that the test on cost controls currently is substantial, and some time is likely to elapse before stabilization is achieved. Meanwhile the company's net earnings may develop a moderate shrinkage compared with a year earlier, though in the absence of definite figures this is no certainty. As we have pointed out former recessive periods have not affected Woolworth earnings impressively.

British Subsidiary

To bolster domestic earnings, also, it is interesting to note that the company anticipates another excellent year for its British subsidiary, in which it owns a majority interest. Despite or perhaps because of austere conditions in Socialist Britain, Woolworth & Company, Limited, contributed more than $6 million in dollar cash dividends paid to the parent last year. Incidentally, the stock of this British concern is carried on the Woolworth balance sheet at the highly conservative figure of $30.8 million, though early this year the quoted value of the shares was more than $264 million. And at the start of the late war, Woolworth reduced the book valuation of its German subsidiary from $11.4 million to $1, the latter figure still standing though the German company has resources enough to finance its entire recovery program.

On another appended tabulation we show relative balance sheet items of Woolworth for 1940 and 1948. From this will be seen how an accumulation of earnings has expanded working capital by $56.5 million to a record high of $118.6 million in the space of nine years, though net additions to plant account were $18 million in the same period. A current ratio of 3.3 appears very satisfactory although moderately lower than formerly. Cash and Government securities aggregating more than $82 million compare with total current liabilities of $51.5 million, attesting to an unusually sound financial position.

This strong status may serve to stabilize dividends in the current year if net earnings should dip moderately. It seems pretty clear that Woolworth can comfortably finance its 1949 expansion and modernization without relying on current earnings at all, and more than $3 million derived from depreciation charges would aid in the process. During the boom period of 1947-48, dividends of $2.50 per share were only 10 cents higher than $2.40 per share paid regularly between 1932 and 1940 inclusive, although net earnings of $4.48 in 1948 were at a twenty-year peak. This lends encouragement to the expectation that dividends will remain unchanged in the current year.

Investors evidently share this optimistic view of the outlook for dividend stability, for despite the general downstrend in stock prices this year, F. W. Woolworth shares are quoted at 48, close to their 1948-49 high and yielding 5%. The strongly marked investment characteristics of the stock warrant its inclusion in conservative portfolios and appreciation potentials under more favorable market conditions should be considerable. The Woolworth empire that has been built on customer satisfaction and improved working conditions for employees has brought liberal rewards to stockholders, and the record is by no means complete.

For Profit and Income

(*Continued from page* 441)

growth ahead for this company, but it cannot possibly maintain the past rate of percentage expansion in sales and profits. That is the big trouble with "growth stocks." The potentialities are always greatest when they cannot be projected with any certainty. By the time growth characteristics become strongly defined, the sharpest relative growth often has already occurred.

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Whether a particular direc- ate will increase a dividend de- nds on a good many things in dition to earnings. Hence, there a considerable margin for error forecasting action. With that ervation, this column notes the owing logical candidates either r increased regular rates or siz- le year-end extras: General Mo- s, American Home Products, T Financial, Falstaff Brewing, usehold Finance, Public Service Colorado and El Paso Natural s.

Brief

Joy Manufacturing is not acting ll in the market, despite the parently good prospect for its w, continuous-mining machine. . It is trade opinion that copper d lead prices have put bottom hind, but only time will tell. . . . me trade sources doubt that the provement in cotton-goods and olens is lasting, but concede at the rayon branch of textiles y have seen its worst. . . . el orders picked up considera- y within the fortnight prior to e threatened strike, but now l sag again. . . . Cement stocks e the best outlook in the build- group but it does not seem to enough to put them up signifi- tly. . . . It is hard to see how a eral cut in crude oil prices, in- ding gasoline-bearing grades, be deferred much, if any, be- d early autumn, when gasoline sumption turns down season- y.

ing Practical Advice to a Long Term Investor

(Continued from page 421)

ome investors, also, hesitate se any portion of capital gains living expenses on the theory t they represent "untoucha- " capital. While we won't at- pt to argue on this subject, will point out that other in- ors do regard profits as ex- dable and if dividend income nterrupted by temporary li- ation of securities, they con- r it justified to tap their cash unts.

s outlined above, it will be that our definition of a long investment program is y fairly simple though it pre- poses availability of continu- and well informed advice, and constant supervision. The trouble is that the primary selection of stocks with proper fundamentals and genuine potentials for consistent growth under normal conditions is seldom easy. And subsequent supervision requires intimate knowledge not only of pertinent industry factors, but of economics, finance and frequently politics as well. For the average investor this is a large order to which he is not always equal; thus if he is wise, he looks about and "hires" expert advice. He will need it never more than when it comes to decide when to take capital gains in major market swings, but also when his holdings must be reviewed from the standpoint of growth factors.

The latter, over a period of time, may give way to maturity and even declining tendencies, and to discern such trends in time is of foremost importance to the long term investor particularly.

Rail Equipments Face Rapid Shrinkage of Backlogs

(*Continued from page* 437)

largest builder of freight and passenger cars, had an immense backlog of $292 million at the beginning of the year and as steel supplies have been plentiful, the company's earnings for the first six months of 1949 probably showed improvement. But unfilled freight car orders are being rapidly whittled away and until lately at least, passenger car business has been unprofitable because of widely varying specifications. On the other hand, Pullman's engineering subsidiary, the M. W. Kellog Company, is contributing substantially to the parent's earnings and should continue to do so. All considered, full year net of Pullman may equal last year's $3.18 per share and an over-abundant cash position strengthens potentials for dividend stability, but for some time ahead a downtrend in earnings may develop at an accelerated pace. The company's program to purchase substantial quantities of its stock in the open market is a favorable factor in helping to stabilize per share earnings.

American Car & Foundry Company about a month ago had reduced its backlog to around $124 million from $280 million early in the year. The company's earnings for the fiscal year ended April 30 were $4.85 a share compared with $3.47 per share reported for fiscal 1948, as production this spring reached record proportions. Of six main plants, however, one was planned to shut down recently, two others may close in October and the other three may end operations around the first of the year unless some substantial new orders are received. In this respect much will hinge on the future course of steel prices. If they appear to have become stabilized, the railroads may be more inclined to step up their orders. No immediate threat to ACF's $3 dividend is indicated.

Locomotive manufacturers have enough business booked to keep them actively engaged for the better part of a year, though new orders have been coming in at a much reduced rate. The now fully demonstrated efficiency of diesel locomotives for both switching and long hauls has increased demand to a point where they account for almost 90% of new orders. The relatively few entrenched concerns in this field had unfilled orders for more than 1,100 diesels about a month ago and were delivering at the rate of about 175 per month. As by far the majority of the 35,000 locomotives now in service are steam-powered and quite a number are being continually junked, makers of the diesel type are likely to experience only a temporary slump in new orders. The diesels are the most expensive form of all railway equipment, and as unusual technical talent is needed in their manufacture, profit margins generally are relatively satisfactory. Increased supplies and declining prices for materials should also be beneficial to operating income of the well situated firms.

In the locomotive field, General Motor's subsidiary, Electro-Motive Corporation continues its

dominant position. American Locomotive Company, now concentrating wholly on diesels and with substantially modernized facilities, had a backlog of $105 million with which to face 1949 and should report earnings comparable to the $2.30 a share reported for 1948. The conservative 35 cents per share quarterly dividend, accordingly, should hold. Baldwin Locomotive Works as of March 31, had a backlog of about $90 million and earnings of 37 cents per share for the first quarter were slightly higher than a year earlier. But new bookings were at a rate of only about half of last year and showing a continued downtrend. The substantial interest acquired in this concern by Westinghouse Electric Corporation strengthens the company's long term prospects but dividends at present are not very widely covered by earnings.

Air brake manufacturers are likely to run into a less prosperous period in the relatively near future because of the approaching completion of the ICC program to equip all cars with air brakes, not to mention the prospects of sharply reduced freight car construction in the offing. The strong finances and trade position of Westinghouse Air Brake enhance its potentials for well maintained dividends, especially as replacement sales should continue to be substantial. New York Air Brake Company has just reported net profit of $3.99 per share for six months ended June 30 compared with $2.90 in the corresponding interval of 1948. But the management admits a sharply lower backlog position. Thus despite improved earnings in the first half year, the company may hardly match for full 1949 the $6.35 per share earned in 1948.

Among other producers of railway equipment specialties, American Brake Shoe Company has a more secure position and a better outlook for relatively stable sales than some of those we have discussed. Replacement orders for brake shoes flow in quite steadily, and the company's output of automotive products should continue to find ready markets. In common with others in the rail equipment field, though, backlog orders of this concern have been shrinking in the current year. General Railway Signal Company stands to benefit for quite a long time from the ICC orders to the railroads involving the equipment of 45,000 miles of high speed lines with proper block signals and other safety devices. Net earnings of 56c per share in the first quarter point to full year results rather close to 1948.

The long term stability characteristic with operators of railway car fleets continues to brighten the outlook for the two leading concerns, Union Tank Car Company and General American Transportation Company. Heavy consumption of petroleum products promises to sustain demand for tank cars at a high level, while little or no decline in demand for refrigerator cars seems in sight. Manufacturing activity by General American Transportation should continue for some months to come, though a following probable diminuation may have a moderately adverse affect on net earnings. Net of both concerns may shrink somewhat because of lower railroad traffic, but dividends seem certain to remain stable.

Appraising the Moves to Revive Intra-European Trade

(*Continued from page* 429)

feet again. It is also known that the Germans contemplate their economic future in terms of revival of their trade with Southeastern Europe including Turkey and Greece. Likewise the Russians and the satellite countries are more than anxious to get some of the Western European surpluses of machinery, chemicals, machine tools, and other manufactures in return for their raw materials and agricultural surpluses which, incidentally, may be quite considerable this year. In fact, the desire for more East-West trade is regarded as being responsible for the relaxation of the "cold war" and for bringing about what is now described as "cold peace."

Contrary to general notion, East-West trade increased only moderately in 1948 when its volume was but 40 per cent of the 1938 level. Since then a number of agreements concluded between Great Britain and Russia and Yugoslavia, as well as between France and Czechoslovakia and Poland, may have raised it. East-West trade has been limited by a number of factors: (1) the absence of credit financing; (2) t lack of goods to export. Agric tural surpluses of Eastern Eu pean countries have genera been small even where producti came back to prewar level b cause farmers have been reta ing a larger proportion of th crops for their own use. Exce for coal and some steel and m chinery, Poland and Czechoslov kia have had very little to off in the way of essentials, larg because of their own industria zation plans.

But above all, the revival East-West European trade is su ject to the settlement of the m jor issues between the East a the West, or to be more speci to the relaxation of the tensi between the United States and t Soviet Union. This is for obvio reasons, for the nature of t trade—the exchange of Weste European capital goods for Ea ern European consumer goods will be more profitable to t East, which as a result of obta ing capital goods will be able only to recover much faster th the West, but also become gra ally more self-sufficient and the fore more independent of West.

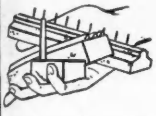
Significance of Recent Market Action

(*Continued from page* 415)

quarter.

Concluding this brief summa of the economic environment affecting the stock market, co corporate profits for the sec quarter are estimated to h been at an annual rate of $1 billion, down about 11% from first quarter and down ne 28% from the peak quart rate of last year. Total divide in the second quarter are e mated at an $8-billion ann rate, off only some 3.6% from peak.

There are three questions consider. (1) Have we reac a point of temporary stabiliza in the economy, to be followe due time by a further deflat ary test, particularly when re justment reaches the automo industry? (2) Has there b enough readjustment to put economy on a solid basis f new cycle of business expans (3) Does Government d spending and the union drive higher wages (and costly secu



Weighing the assets behind each share

An Investment Approach to

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Measuring earnings and dividends

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or the man with an ample retirement income—who an live comfortably on the interest from government onds—the answer is "no." But, for the average in-estor who is still building toward financial inde-endence—who needs capital growth to offset high ving costs and taxes—the answer is decidedly "*YES.*"

HE INVESTMENT AND BUSINESS FORECAST of The agazine of Wall Street is designed to aid you as an vestor. It is not offered to the in-and-out trader. But, ecause low-priced shares have *huge profit advan-ges,* especially during certain times, we have under-ken exhaustive studies which are enabling us to use quities in the lower price ranges with great success *expanding the productive power of your capital.*

ow . . . A Complete, Supervised Program in w Priced Shares for Large Percentage Profits

ow priced stocks vary just as much in quality and in ofit and income prospects as do securities in any her price category. Some "cheap" stocks are not orth the few dollars at which they are quoted. Others e strong, undervalued growth situations with consid-able intrinsic merit.

onvinced of the outstanding profits that well selected w-priced stocks offer, THE FORECAST devotes a com-ete program to such growth companies—strategi-lly placed—which have realistically adjusted their sitions to the 1949-50 outlook.

ofits even in ll, declining 1948

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benefits) mean a revival of the inflation spiral?

We find it vary hard to believe that a maximum decline of less than 10% to date in the commodity price level — with foreign currency revaluations still to come — is all that we face. We find it hard to believe that the final low in production has been seen before there has been any slump in the automobile industry. We do not believe that the Federal deficit spending now in prospect is enough to revive the inflation spiral. As regards wages, much depends on the scope of the concessions to labor which the "fact-finding" board probably will recommend in the pending case of the steel industry and on whether the industry rejects them. But nothing good can result. An arbitrary boost in steel-producing costs would not be constructive. A long strike — likely if the recommendations are rejected— would not be constructive. Finally, this business of having politically-appointed boards try to make wages is highly objectionable.

If you assume a revival of inflation, bear in mind that when we had it the market was unable to maintain any sustained rise, due to the fear of the end consequences. Probably that fear would be no less, given more of the same. However, of the possibilities cited, a temporary pause in the readjustment — nothing new in the history of corrective periods — seems the more likely. We conclude that the final test for the stock market has not been seen, that conservative reserve funds should be kept intact in order to take advantage of future buying opportunities, and that equities held should be confined mainly to investment-grade dividend payers. —Monday, July 25.

BOOK REVIEWS

THE PAGEANT OF INDIA'S HISTORY

By Gertrude Emerson Sen

The immense span of time from the dawn of India's civilization to the crumbling of her unity and the Muslim conquest is usually given scant treatment by historians for the layman. Yet to dismiss this vast period is to distort any appraisal of India's place in the modern world, and to miss her greatest glories. In this, the first of two volumes, Gertrude Emerson Sen renders a readable and authoritative account of India before the European invasions. Her work is not only a history but an interpretation of a civilization and its influence upon our own.

Combining fine scholarship with lucid style, the author pictures India's prehistory; she shows us the Arayans waging fierce wars upon the Dravidians; she describes the fusion of these two civilizations from which Hindu culture emerged; and the beginning in the sixth century B.C. of the religion of Buddha.

One of the highlights is an absorbing account of the Golden Age of India's cultural development under the Gupta monarchs. It is fascinating to trace the profound influence exerted on scholarship by the official adoption of Sanskrit; to see the great epics taking the form in which they have come down to us; to follow the students of the fourth century flocking to the great University of Nalanda, with which none in Europe would compare until Oxford and Pa[ris] were founded eight centuries later.

Here is history at its most varied, f[or] variety is inherent in Indian life. It [is] in the very blood of her people, in the i[m]press left upon her by a long successi[on] of invaders — Persian, Greek, Parthia[n,] Scythian, Hun, Turk, Afghan, Arab, a[nd] Mongol. It is in the very extremes of h[er] natural environment, and it finds expre[s]sion in a rich and imaginative art, a[nd] wide-ranging thought.

Mrs. Sen brings to her writing exce[p]tional qualifications: intimate kno[wl]edge of the land from long residen[ce] there, keen and critical understanding [of] its art, literature, religions and custo[ms]. For all who would understand India [to]day this splendid pageant of her ea[rly] history will prove both illuminating a[nd] richly rewarding.

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CHALLENGE OF THE AMERICAN KNOW-HOW

By Pearl Franklin Clark

This book is a unique human do[cu]ment, a record of the experiences of [a] famous management engineer, Wall[ace] Clark, and his wife, in the course of [his] practice in twelve European countr[ies]. The fruits of their study of indust[rial] methods on the Continent, in the per[iod] between the two World Wars, expl[ain] with remarkable effectiveness both [the] weaknesses of European industry [in] dealing with the human problems [of] management and the secret of Ameri[can] know-how.

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